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# The Province of Alberta

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IN THE MATTER OF "THE NATURAL  
GAS UTILITIES ACT"

—and—

IN THE MATTER OF an Enquiry into  
Scheme to be adopted for Gathering,  
Processing and Transmission of  
Natural Gas in Turner Valley

---

G. M. BLACKSTOCK, Esq., K.C., *Chairman*

Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

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***Session:***

**CALGARY, Alberta** April 17th, 1945.

**VOLUME** 24



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VOLUME 24

April 17th, 1945.

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Corrections

9.30 A.M. Session,  
April 17th, 1945.

-1857-

MEMORANDUM OF CORRECTIONS OF TRANSCRIPT  
VOLUME 20, PAGES 1530 to 1606  
EVIDENCE OF EDGAR G. HILL

(Handed in by J. Ragnar Johnson)

<u>PAGE</u>	<u>LINE</u>	<u>ERRATA</u>
1530	9	Eliminate "a" after "am"
1530	26	Substitute "1922" for "1923"
1531	9	Substitute "returned" for "served"
1531	18	"Munro" should be "Munroe"
1531	23	Substitute "the" for "these"
1531	29	Substitute "across" for "from Texas and into" and "Ohio" for "Star"
1532	2	Substitute "T.N.T." for T. & T."
1532	6 & 8	"Munro" should be "Munroe"
1532	13	Substitute "manufactured" for "natural"
1538	5	Substitute "checked" for "took"
1538	24	Eliminate "and"
1539	8	Insert "for" after the first "was" (second word)
1542	15	Insert "for land" after "allowance"
1542	16	Substitute "nominal" for "normal"
1542	19	Substitute "in" for "for"
1542	28	Substitute "nominal" for normal"
1542	30	Substitute "have" for "would"
1543	1	Substitute "placed" for "place"
1543	3	Insert "protected" after "are"
1545	14	Substitute "ethanol" for "ethonol"
1545	20	Substitute "which" for "with"
1545	21	Substitute "the Company" for "some that we"
1545	25	Substitute "from" for "in"
1545	27	Substitute "gas" for "it"
1546	2	Substitute "in" for "into"
1546	6	Eliminate "when"
1546	23	Substitute "pressure" for "pressures" and insert "vessels" after "pressure"
1548	18	Substitute "before" for "after" and "where" for "and"
1549	19	Substitute "the" for "that" and "removed" for "gone"
1555	15	Insert "in the expenses" after "included" and "\$400,000" for "\$40,000"
1555	16	Substitute "\$400,000" for "\$40,000"
1562	9	Substitute "tube" for "two"
1596	13	Substitute "and" for "or"



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-1858-

MEMORANDUM OF CORRECTIONS OF TRANSCRIPT  
VOLUME 21, PAGES 1607 TO 1684  
EVIDENCE OF EDGAR G. HILL

(Handed in by J. Ragnar Johnson)

<u>PAGE</u>	<u>LINE</u>	<u>ERRATA</u>
1608	24	After "four or" add "five thousand"
1609	3	Substitute "Bimel" for "Bimal" and wherever this name occurs
1610	18	Substitute "paper" for "papers"
1617	15	Eliminate "is", Substitute "contain" for "contained" and eliminate "in the"
1618	18	Substitute "a" for "any"
1618	19	Substitute "will" for "is allowed to"
1621	28	Substitute "number" for the first "the" (6th word)
1624	11	Substitute "there" for "their"
1626	23	Substitute "depreciation" for "appreciation"
1627	12	Substitute "inventory" for "actual"
1627	13	Substitute "of" for "and"
1628	30	Substitute "want" for "try"
1629	1	Eliminate "your recovery and divide it into the rate base and take"
1631	26	Substitute "to" for "of"
1632	13	Substitute "covering" for "there"
1634	2	Figure should be "\$6,990.00"
1634	6	Add "book" after "the"
1635	14	Substitute "that" for "Seaboard" where it appears the second time, viz. "that which is..."
1636	1	Substitute "are" for "is" and eliminate "it"
1636	14	Substitute "it" for "they"
1636	22	Eliminate "not"
1640	13	Eliminate "I do not"
1640	22	Eliminate "That is that"
1643	13	Substitute "a new" for "the"
1648	5	Insert "with" after "fail"
1648	11	Substitute "right hand" for "written"
1660	3 & 4	Substitute "cheque" for "cheques"
1660	11	Substitute "the Company" for "somebody"
1660	15	Substitute "elapsed" for "lapsed"
1660	22	Eliminate "by the same way"
1660	25	Substitute "well it is prepaid" for "well if it is repaid"
1661	8 & 9	Substitute "at" for "and mark it for"
1661	17	Substitute "prepayment" for "repayment"
1662	20	The third word should be "costs" instead of "figures"
1664	22	Insert "it was" before "the same" and eliminate "it" after "pay"
1667	4	Spelling of "purchase"
1668	6	Substitute "Koffers" for "copper"
1669	11	Substitute "depreciated" for "prepared"
1669	18	Substitute "stays" for "sits"
1669	20	Insert "meanwhile" after "money"
1669	26	Substitute "them" for "there" and eliminate "they are worth intrinsically more"
1670	25	After the word "market", substitute "for" for "of"
1671	26	Eliminate "expense being taken up, the"
1672	11	Eliminate "with a mixture"
1672	15	Insert "but" after "on" and substitute "34" for "24"
1673	10	Eliminate "solid"
1676	2	Substitute "of" for "before"
1681	1	Substitute "bonus" for "cost"
1681	4	Eliminate "per minute"







MEMORANDUM OF CORRECTIONS OF TRANSCRIPT  
VOLUME 22, PAGES 1685 TO 1786  
EVIDENCE OF EDGAR G. HILL

(Handed in by J. Ragnar Johnson)

<u>PAGE</u>	<u>LINE</u>	<u>ERRATA</u>
1697	15	Eliminate "in" and substitute "to" for "of"
1699	1	Substitute "Gentry" for "Gentry's"
1699	4	Substitute "Gentry". for "Gentry's" where it first appears, and eliminate "the"
1699	16	Substitute "the other" for "that"
1700	27	Substitute "F.O.B." for "full"
1720	20	Substitute "disposed" for "supposed"
1729	7	Eliminate "they"
1743	19	The Chairman no doubt intended "philanthropic"
1744	19	Substitute "may" for "should"
1745	1	Substitute "was told" for "disclose"
1753	23	Substitute "Ohio" for "Iowa"
1754	13	Insert "worked" after "labourer"
1758	3	Substitute "laid our pipe" for "quoted our price"
1765	26	Eliminate "are"
1769	11	Substitute "cylinders off" for "Cylinder out"
1769	13	Substitute "belt" for "built" and "flywheel" for "liners"
1769	18	Substitute "well" for "good"
1769	28	Eliminate "and"
1770	1	The first two lines should read: "No, the mist presumably is caught in the plant in traps designed for that purpose but there may"
1772	21	Substitute "23%" for "22%"
1773	4	Insert "not" after "was"
1773	10	Eliminate "the latest report was"
1773	11	Insert "the" after "for"
1773	22	Substitute "validity" for "velocity", and "use" for "rise" and "of" for "to"
1774	6	Substitute "a normal" for "an abnormal"
1774	8	Substitute "as" for "so" and "September" for "December"
1775	15/16	Eliminate "This charge was a justified depreciation"
1776	10/11	Substitute "lower" for "higher" and "was" for "had" and "using for estimating purposes" for "paid out or about an equal valuation"
1777	22	Substitute "S.E.C." for S.C.C."
1778	14	It is suggested that the Chairman's question was "Was it suggested to you that you put \$200,000.00 in the valuation?"
1778	16	Substitute "will" for "did"
1780	17	Substitute "vs" for "&"
1781	1	Substitute "service" for "property"
1783	11	Substitute "valuation" for "valuations"
1785	16	Eliminate "for"







9.30 A.M.Session  
April 17th, 1945.

W. C. Kirkpatrick .  
Cross-Exam. by Mr. Fenerty

-1860-

W. C. KIRKPATRICK having

been recalled cross-examination continued by Mr. Fenerty.

Q Mr. Kirkpatrick, yesterday you were good enough to say that you would prepare a statement which would show the amount shown by the Madison books representing the assets' side of the ledger, have you had an opportunity of doing that?

A Yes I have (statement produced by Witness).

STATEMENT PRODUCED HERE  
MARKED AS EXHIBIT 75.

Q I see that according to that statement the amount set out in capital stock account is \$2,255,574.49.....?

A Will you just let me qualify that statement, Sir. I believe that subsequently the statement was intended to set forth the amount set up as the consideration for the 2,899,944 shares that were issued to Royalite and not quite the way you mentioned it this morning, namely, a statement of the assets on the ledger; in other words this statement represents the amount, the consideration which Madison has established on its books for the time being for the assets acquired from Royalite in consideration for which it issued the 2,899,944 shares. In other words, this amount is of January 1st, 1944?

Q Yes. Then I believe you, in answer to a question by Mr. Blanchard, you were going to submit a balance sheet and operating statement?

A I have that with me, Sir.

Q I wonder if I might look at that for my cross-examination?

A I just have one with me, Sir.

Q If I might look at one for a moment?

Q THE CHAIRMAN: As of what date?

A As of December 31st, 1944, Sir.







W. C. Kirkpatrick,  
Cross-Examination by Mr. Fenerty

-1861-

Q MR. CHAMBERS: I may say a copy of the balance sheet has to be filed with the Board each year. It has not been done yet because the meeting has just been held. We can file another copy or this copy might be considered as being filed with the Board.

THE CHAIRMAN: I think you had better file another one.

MR. CHAMBERS: File another one in Edmonton?

THE CHAIRMAN: Yes.

MR. HARVIE: Is that being marked as an Exhibit?

THE CHAIRMAN: Yes, it will be Exhibit 76.

BALANCE SHEET PRODUCED HERE  
MARKED AS EXHIBIT 76.

Q MR. FENERTY: Now I am going to leave that just for a moment.....?

MR. HARVIE: Is that a balance sheet of Madison or Royalite.

MR. CHAMBERS: Madison.

THE CHAIRMAN: As of December 31st, 1944.

Q MR. FENERTY: Now I want to discuss the assets which were taken over by the Madison Company under the agreement which is in before as Exhibit 68. You will perhaps remember that in giving evidence Mr. Hill made a statement that from the scrubbing plant back to the well everything has a dual service or use?

A I do not remember those exact words, Sir.

Q Now I am going to suggest to you and I want to ask you how far you can agree with this suggestion, that everything from the absorption plant back to the well has one use and one use only, that is to gather and transport wet gas to the absorption plant, can you agree with that?

A I will agree that it has one use and one use only, to transport wet gas but I will qualify it by not limiting it by use to the absorption plant.







C-1-6

W. C. Kirkpatrick  
Cross-Exam. by Mr. Fenerty

-1862-

Q Does it take the wet gas to any other place?

A Not the wet gas.

Q I am talking about the wet gas and is anything but wet gas transported in any of those lines?

A No, I would say not.

Q Dry gas does not appear on the scene until you get to the downstream side from the scrubbing plant?

A Being the remainder from the wet gas.

Q Then will you go on with me and say that it has one use and one use only, in transporting wet gas and wet gas only from the well to the scrubbing plant and to no other place, is that not a fair statement?

A I think that is correct, that wet gas is being transported from the wells to the absorption plant.

Q Yes?

A And something happens to it there.

Q Oh yes?

A All the gas does not remain there.

Q Oh yes, we are agreed on that?

A But it does not transport anything but wet gas to that point.

Q And it does not transport that wet gas to any other place except the scrubbing plant?

A Not to my knowledge.

Q And the gathering of wet gas and putting it into the scrubbing plant, - pardon me, I mean the absorption plant, I think I said "scrubbing plant" before, I should have said "Absorption plant", - the gathering of wet gas and transporting it to the absorption plant is an integral part of the distribution plant operation, is it not?

A No Sir, I would not say so.

Q Well it cannot operate and.....?







C-1-7

W. C. Kirkpatrick  
Cross-Exam. by Mr. Fenerty

-1863-

A That operation is an operation for the purpose of extracting the liquid content of the wet natural gas and it does not necessarily ....

Q I say it cannot operate without the wet gas being delivered to it?

A From some point or other, no.

Q Let us put it this way and see if this is fair,- that prior to the incorporation and transfer of the assets to Madison, the gathering of the wet gas and delivering it to the absorption plant was an integral part of the operation of extracting natural gasoline at the absorption plant, that is fair, is it not?

A It is a part, yes but that does not necessarily mean that these lines, that they were exclusively used for that.

Q We have got to the point, that it was used entirely to transport wet gas and no other thing?

A Well in my mind, Mr. Fenerty, I have never thought of it as exclusively used for the transporting of wet gas to the gasoline plant. I have always visualized it in terms of the gas gathering system for the purpose of transporting a product known as wet gas.

Q Yes.

A Which has two components, that is the gasoline extracted at one point and the residue at another point.

Q I understand that you do know that in other plants, the G.O.P. and the B.A. for instance, they have been used in exactly the same way, the gathering lines have been used in exactly the same way, for transporting wet gas to an absorption plant, do you not?

A Yes I do.







W. C. Kirkpatrick  
Cross-Exam. by Mr. Fenerty

-1864-

Q And you do know that in those cases that was the complete function, do you not, of those gathering lines?

A That is my understanding, yes.

Q And is there any difference between those operations and the operation of these gathering lines which transport wet gas to the Madison plant?

A Yes, I would say so in so far as ...

Q What is it?

A I would say this, that had the gas gathering lines been designed for the exclusive purpose of transporting wet gas only to the gasoline plant, they would have been of a different design entirely. That is only my opinion as a lay man and not as an engineer.

Q I do not know that either. We can find that out from some of the technical men?

A Yes.

Q But what I am trying to get is this, that you have an operation in the Madison plant which, - subject to the variations due to design in the plant and so on, - which is exactly the same as the operation in the G.O.P and the British American plants, in that the operation is the gathering and transportation of wet gas from wells to the absorption plant, we have got that, have we not?

A Yes.

Q And those operations in two of the three plants go on, I say, in exactly the same manner as in the Madison, without reference to the disposal of the residue product, the dry gas, do they not?

A Yes.

Q In these others it is flared?

A Yes, they all transport wet gas to a gasoline plant but the







W. C. Kirkpatrick  
Cross-Exam. by Mr. Fenerty

-1865-

operations thereafter are different.

Q So what I suggest to you, it is primarily a wet gas operation until the product is passed through the absorption plant?

A It is certainly a wet gas gathering line up to that time.

Q Now can you give me any suggestion as to why in the case of the Royalite operation, in the agreement with the Madison Company, the Royalite saw fit to divest itself of that half of the absorption plant operation, that is the gathering lines?

A Well, Sir, I have not agreed that the wet gas gathering system as such was ever considered as part of the absorption plant but your question I presume is why.

Q I am not asking you to agree, but you will agree with me that the absorption plant cannot operate without those lines, can they?

A Oh certainly not.

Q And what I am suggesting to you is that if this transaction had been between the Royalite Company and a company other than a wholly owned company or subsidiary, there would have been no possibility of these gathering lines being put in the hands of a third party.

A As to that suggestion, I am not qualified to say whether it would have happened or not.

Q Did you not have anything to do with the transaction?

A Oh no.

Q You are not just a rubber stamp, are you?

A No, I am Secretary of the Madison Company.

Q You are the Secretary of the Purchasing Company?

A That is correct.

Q And did the Purchasing Company's officials exercise no independent judgment on anything?

A No, the offer was "here is the natural gas division of our







W. C. Kirkpatrick  
Cross-Exam. by Mr. Fenerty

-1866-

Company submitted to you for consideration."

Q Were you considering this transaction from the point of view of the benefits derived by Royalite or from the point of view of the benefits derived by the Madison Company from it?

A We were considering it from this aspect, that in a natural gas operation, and I am speaking of it in its residue form or characteristic , it is necessary to have a gas gathering system. You have no control over gas if you cannot bring it in under your own jurisdiction. You cannot go to the producers and purchase the gas and therefore I take it it is proper and logical to acquire that.

Q But in negotiating this agreement, which I take it you did negotiate, did you give any consideration to the reasons why you were acquiring the gas lines rather than having the dry gas delivered to you?

A Well I thought I had explained that just previously.

Q No, I do not think I have heard it?

A That we considered that as an integral part, a necessary part of the business of gathering and acquiring and disposing of natural gas in its residue form.

Q But the first part of it is the absorption plant operation?

A It happens that the absorption plant is interposed between the gathering and the residue part.

Q Before you came into the picture, if there was a surplus of dry gas it was flared, was it not, before that?

A I would not know that. I presume it would be.

Q By the way have you been, were you with the Royalite Company prior to your connection with Madison?

A I was employed with that Company prior to January 1st, 1944.

MR. CHAMBERS: I do not want to interrupt but for your own information, Mr. Kirkpatrick is the Secretary Treasurer





W. C. Kirkpatrick  
Cross-Exam. by Mr. Fenerty

-1867-

but not a Director of Madison.

MR. FENERTY: Oh, he was not?

MR. CHAMBERS: No, and I thought you should know that.

MR. FENERTY: I see.

MR. CHAMBERS: Mr. Stevens-Guille is.

THE CHAIRMAN: But he nevertheless has knowledge.

MR. CHAMBERS: Yes, but he was asked if he considered it.

MR. FENERTY: I do not think I am going to get many people on the stand with direct knowledge, at least I do not feel that I am going to.

THE CHAIRMAN: You can ask me for a subpoena if you want any others called.

MR. FENERTY: Yes.

Q MR. FENERTY: So you are not a director?

A I am not a director.

Q What you are speaking of are the purely formal agreements and you are not in a position to tell us the whys and the wherefores of any of those?

A No I am not.

Q Then I have been wasting my time on some of <sup>these</sup> things. I did not appreciate that?

MR. CHAMBERS: The next witness is a Director.

Q MR. FENERTY: You did not take part in any of the discussions?

A No Sir.

Q And you have no opinions?

A I have opinions, I just expressed them I think, I believe they are properly a part of the operations but those are my personal opinions and if they have not coincided with the transactions.....

Q That is fair enough. I think we can probably all agree, can we not, Mr. Kirkpatrick, that all of this gas, the wet gas, comes





W. C. Kirkpatrick  
Cross-Exam. by Mr. Fenerty -1868-

from these wells in Turner Valley, I think that is common knowledge?

A Yes, that is common knowledge.

Q And the gas in the first instance is controlled by the owners of the wells?

A Well "controlled" what do you mean, I do not want to evade answering your question but I would like to know what you mean when you say "controlled".

Q The first disposition of it is made by the owners of the wells?

A Yes, he has that liberty to dispose of his product but he/<sup>having</sup>once entering into a contractual obligation I would say legally he has lost control, he has tied himself up to a purchaser.

Q You probably know or assume that there were various contracts outstanding with parties other than Madison?

A I know that.

Q For the disposal of this gas?

A Yes, that is evident by the exchange of letters which have already been filed as an Exhibit.

Q Now do you know what in fact did happen during the year that Madison has been in operation, has it acquired the rights to some of this gas, what has it done?

A It has acquired rights to some of the gases which are being produced, prior to January 1st, 1944.





W. C. Kirkpatrick,  
Cr. Ex. by Mr. Fenerty.

- 1869 -

Q Yes?

A

A That gas was purchased and gathered prior to January 1st, 1944, and was under contract between the processor company, Royalite and the producer.

Q Yes?

A And pending the establishment of a contract suitable to the circumstances which will likely now exist, and satisfactory to this Board, those arrangements were continued between Royalite and the producer and Royalite in turn exchanged correspondence with the Madison whereby Madison acquired the gas. Since January 1st, 1944, new wells have been under direct arrangement between Madison and the producer.

Q Do I understand that Madison acquired the wet gas?

A Takes delivery of it, yes, in the system.

Q I see. Madison acquires the wet gas which is required for the absorption plant operations?

A Which is ultimately delivered to the absorption plant.

Q What does it do with the wet gas after it gets it?

A It never has it in liquefied form. It merely transfers the gas to the absorption plant at which point the gas is processed by the absorption plant and ultimately redelivered to the scrubbing plant.

Q Processed in the absorption plant for whom?

A For Royalite.

Q But Madison owns it? Let us follow it along. I think I know what happened. The well owner owns the wet gas?

A Yes sir.

Q And sells it to Madison, that is right is it not?

A That is right I think.

Q And Madison transports it to the absorption plant?

A Correct.

Q And it is processed in the absorption plant you say for





W. C. Kirkpatrick  
Cr. Ex. by Mr. Fenerty.

-1870 -

Royalite?

A Yes.

Q But Madison owns it?

A Madison does not own the absorption plant, no sir.

Q No, but it owns the wet gas, is that right?

A Well I do not know whether you call it owning it or taking possession of it. I do not know what the legal position is.

Q I know what was done in 1944, if you operated under the contract which you submitted to the Board, but I do not know whether you operate in accordance with them, and I want to know what you did in 1944? This Madison Company purchased so many cubic feet of wet gas from well owners?

A Yes.

Q By virtue of assignment of the contracts with those well owners?

A No sir, not by virtue of assignment of the contract, by virtue of the correspondence that has been already filed.

Q You see, I am<sup>at</sup>/quite a bit of a loss because I have not had time to examine it. By virtue of correspondence pending contracts is it?

A No, not pending.

Q What do you mean? Would you mind me taking a moment to look at it, I did not have them yesterday.

THE CHAIRMAN: I think these amount to what you might call an equitable assignment in general terms of the existing contract.

Q I see. In this Exhibit 70 it says:

that  
"It was intended/as of the 1st of January 1944,  
Madison would enter into agreements with the  
producers of natural gas tied into its natural  
gas gathering system, such agreements to replace  
those in effect up to December 31, 1943, between





W. C. Kirkpatrick  
Gr.Ex. by Mr.Fenerty.

- 1871 -

Royalite and the respective producers.

There was not going to be an assignment of this contract,  
there was a new contract?

A No, it was the intention that a new type of contract was to  
be entered into.

Q And pending the new contract it entered into the situation  
it outlined in the letter?

A Yes.

Q It was also Madison's intention to enter into an agreement  
with Royalite for the processing of such natural gas at Royalite's  
Gasoline Plant for the extraction of the gasoline content.  
Now if I read it, see if you have the same reading of it  
that I have, it is that Madison intended to enter into  
agreements with the producers of natural gas, to get that  
gas from them?

A Exactly.

Q And that is the wet gas is it not?

A Wet?

Q And Madison intended to enter into an agreement with  
Royalite to have that wet gas which had been acquired  
processed at the Royalite plant, is that not what you said?

A That is the intention.

Q Then I suggest to you that the intention was to have it  
processed for Madison is it not?

A Processed for Madison?

Q Yes, processed for Madison, it is Madison's gas before  
and it was going to be processed for them.

A That is right. Madison has acquired this gas from the  
producer and is responsible to the producer.

Q That is all I asked you in the first instance. You will  
agree with me now?





W. C. Kirkpatrick,  
Cr. Ex. by Mr. Fenerty.

- 1872 -

A Yes, I will agree with you.

Q And that was what was done during 1944?

A Yes, that was what done during 1944.

Q And what did Madison do with the gasoline in hand?

A Madison never did have possession of the gasoline.

Q Oh no, I did not mean physical possession. I mean, what did it do with its ownership of the gasoline that resulted?

A Its ownership of the gasoline is, let us say, a trustee ownership, in that it is merely responsible to the producer eventually for the proportion of the gasoline contained which the producer is entitled to.

Q Is that your interpretation of this correspondence?

A Those are the actual mechanics of the operations.

Q Never mind the mechanics.

MR. CHAMBERS: I suggest that these exchanges of letters are contracts and must speak for themselves.

THE CHAIRMAN: Cannot you ask the witness, there is the contract, not the legal interpretation placed upon it, but of the effect, what in effect did you do?

MR. CHAMBERS: Yes, but I was talking about the intention, and the intention is there.

MR. FENERTY: It was the witness who volunteered the contention in respect of the contracts that it was a trusteeship. I think we have it that the Royalite processed the wet gas which Madison got from the wells.

MR. CHAMBERS: No doubt about it.

Q MR. FENERTY: I want to know what it did with this gasoline, surely that is a plain question.

A That gasoline was obtained by the Royalite Company at gasoline plants and Madison was paid 25% of the gross value received by the Royalite for that gasoline. Madison in turn passed on





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- 20% of that said realization to the producer.
- Q Let me get that. Madison, I take it, then sold what it owned in that wet gasoline to Royalite did it?
- A Yes, I think that is perhaps a fair way of putting it.
- Q That is all I am trying to get at. There is no need of any mystery at all. It sells its wet gasoline to Royalite for 25%, did you say?
- A 25% of the realization price is received by Madison. Madison in turn transmits to the producer 20% of that value, which is in accordance with the agreements in existence between Royalite and the producers.
- Q Wait a minute. It did not sell its 25% of what it received. There is something wrong there. It sells for 25% of the values in it, is that what it would be?
- A Let me explain it this way, that under the contract in existence between the producer and the Royalite Company up to and including December 31st, 1943, the producer received 20% of the value received ultimately from the sale of the gasoline as a royalty. Madison in its exchange of letters continued to pay that 20% to the producer, having received it in the first instance from Royalite. In other words, the arrangements continued much as they had in the past excepting Royalite had paid Madison who in turn paid the producer. That is the only change.
- Q Yes. Then what happens, as a matter of fact, is that Madison sells its gasoline to Royalite for 25% of the values taken out of the wet gas?
- A Of the value for which that gasoline content is ultimately sold.
- Q 25% plus whatever it costs Royalite to process it? Royalite does not make an extra charge or a separate charge for processing?





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A Oh no.

Q Then they sell for 25% of the value taken out of it in the absorption plant? That is what they did?

A That is right.

Q And they pay the producer 20%?

A That is correct.

Q Leaving 5% for Madison to handle some porportion of the overhead in connection with the gathering lines and the amortization costs of them?

A Yes, the 5% was a tentative figure established and represents the amount of money which is retained by Madison for its operation in respect of the gas gathering lines and compressor stations, for the service pressure in gathering the wet gas insofar as applicable to the gasoline content ultimately processed.

Q Now how did you arrive at that figure?

A That figure was merely a tentative figure. There was no science about it at all. We have since re-computed on a proper basis what that percentage should be, and that will be found in our submission M-9.

Q That has not come up yet?

A No sir.

Q Well we'll discuss it then.

A The 5% has no relationship to any scientific calculation. It was merely taken to represent at least some nominal return to Madison until a more proper answer could be obtained.

Q And that arrangement where you took that average, which you figure of 5%, pending some final.....

A I did not hear the first part of your question, I am sorry.

Q That arrangement where you receive 25% of your value and you passed on 20% to the well owners, leaving you 5% which





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you say is merely a tentative figure pending some final determination, Mr. Kirkpatrick?

/ Yes.

Q That would be reflected in your statement for the year 1944?

A It certainly is not reflected in any statements you have in your possession at the moment, as an individual item.

Q It is to be found somewhere in there, is it?

A It is to be found in the accounts for Madison, and which are incorporated there.

Q The results of which are incorporated?

A Yes. Madison has received that 5%.

THE CHAIRMAN: Mr. Fenerty just one point I would like to clear up with Mr. Kirkpatrick.

Q Prior to 1944 the Royalite gathered gas and put it through the absorption plant?

A Yes, sir.

Q And the residue gas went to the market?

A That is correct or part of it.

Q Part of it was flared?

A Yes.

Q Did Royalite flare any of its own gas or did it flare that which came from wells other than Royalite wells?

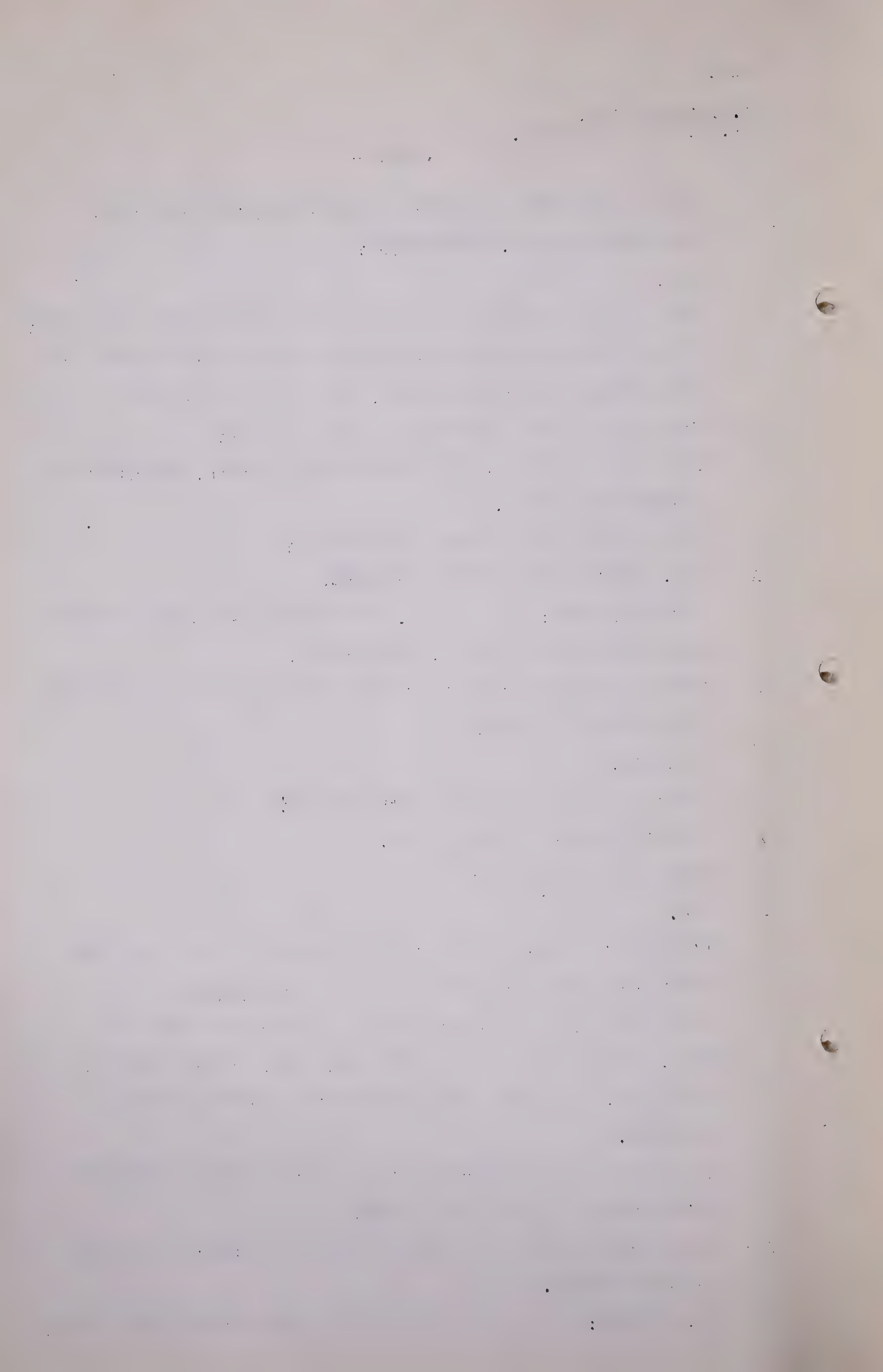
A I am sorry, sir, I do not think I can have an answer for that. If I have ever had that knowledge, it does not recur to me. I believe that information perhaps could be obtained.

Q It is my recollection of reading a case in the Law Reports which indicates that that was so?

A That might be so. I am not qualified to answer if it did actually happen.

Q MR. FENERTY: Now you may know nothing about this,





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and if so you will tell me and I will not take too much time. My understanding of the evidence is that the power requirements, the power produced by these boilers, approximately 75% of that was used in connection with operations other than those involving dry gas alone. Do you know whether that is approximately correct?

A Yes, that is correct. The percentage actually, I think, is closer to 70%.

Q I am not very much worried about any figure. Perhaps 70%. And do you know anything about whether or not or any discussion or any reasons for a power plant being transferred to the Madison Company?

A Yes sir, I do.

Q What was that?

A I believe though that those answers are better given by Mr. Stevens-Guille in M-8 which is the report that follows the one I have given, M-7, and he can give you a much more clear reason for it.

Q I understand the reasons from Royalite's point of view that he will give, but I want to get Madison's point of view.

A Mr. Stevens-Guille will give that.

Q Is he with the Madison?

MR. CHAMBERS: Yes.

A I think Mr. Stevens-Guille will be more clear and comprehensive than I would.

Q It involves some technical matters?

A Yes, it does.

Q Then there is no reason for me going into it. Then I understand that at no time has there been any arrangement, I will put it this way, so that I will not offend or argue with you, this is my understanding, and am I correct, that at no





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time has there been any arrangements between Madison and Royalite involving a distribution of actual costs of any of the operations between those two companies?

A I am not certain I understand your question. Do you relate it to the matter of gas gathering lines?

Q Yes?

THE CHAIRMAN: Do you mean, Mr. Fenerty, an allocation as between the original divisions of the Royalite?

Q MR. FENERTY: I was speaking now of Madison.

A The division with reference to costs, is that what you are speaking about?

Q Yes?

A Has there been any arrangements between Madison and Royalite as to the division of costs with relation to gas gathering lines?

Q Yes?

A There has been this nominal arrangement of 5%, which I spoke about a moment ago, which is subject to review by the Board.

Q That, I understand, is a charge?

A Yes, that is a charge.

Q A charge. What I am getting at is this, my understanding is that at no time, now dealing with Madison and Royalite, has there been a division of actual operating costs on the basis that something which both Madison and Royalite were interested in was being handled. You see, you had wet gas. Now that wet gas, as I understand it, under your system was something which you had purchased outright, not that you as a dry gas operator had an interest in it, you purchased it outright and sold it, is that right?

A I thought we had agreed on that part of the operations.

Q And you purchased the lines outright?

A That is correct.





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Q And you say you have operated on that basis since the inception of Madison?

A That is right.

Q Now I suggest to you that prior to that as between the different divisions of Royalite, that they operated on a different basis involving a division of costs. Do you know anything about that?

A I know they had a number of operating departments, but it is my understanding that they have never attempted to break down their costs to the same extent that Madison has now as a separate integral operation itself.

Q Is it your understanding that one division simply made a charge against another division for processing?

A Oh no.

Q And have you any idea why that charge in the system as between divisions, occurred when you came to a wholly owned company?

A Well, for one thing, I might say this that Madison costs accounting system as now established is on a much more refined and separated operation. It is possible for us to definitely identify what it costs to operate the systems and what we do, and we propose the formula for dividing these costs set forth in our Exhibit yesterday, and a review of them will arrive at that.

Q I am not sure I understand your use of the word "refined", because in this business it might have a couple of different meanings.

A I mean that there is a great deal more attention being paid to the costs.

THE CHAIRMAN: It might mean what you do generally as opposed to scientific.





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MR. FENERTY: I would think so. What I want to get at, Mr. Kirkpatrick, and in taking all these deliberations into account, I was wondering about it, and what I want to get at is why it is that this system of Madison took over all of this, acquiring the wet gas, selling the contents back to Royalite, and the whole process we have described, was adopted rather than the Royalite Company which had all of these operations in the beginning simply turning over the dry gas downstream from the absorption plant to Madison.

A Well, sir, again you are talking about a matter that is not common knowledge to myself. Those were negotiations which were conducted other than by myself. I am sorry I cannot answer. I do not know that.

Q You do not know that?

A No sir, I do not know it.

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Q I am going to continue to be curious about that. However you cannot tell me.

MR. CHAMBERS: My learned friend having left that subject I think it is proper that I should make this statement on the matter of policy that I advised on it. The object was that Madison would take over, own and operate what was a utility as defined by the Natural Gas Utilities Act. True, there was no Act at the time. The stuff that was not a utility was left out of it.

MR. FENERTY: I do not know that my friend should make that statement.

MR. CHAMBERS: I did not make it till you said you were through with that subject.

MR. FENERTY: I might want to cross-examine and bring out what I think is the object which was to have the public pay for the gathering lines.

THE CHAIRMAN: It is quite proper, Mr. Fenerty, for counsel to make statements as to what he knows about it and what Mr. Chambers has said is "I gave the Company certain advice as to what they should do."

MR. FENERTY: I will take any statement that Mr. Chambers makes.

MR. CHAMBERS: And I deliberately did not interject until you said you were going to leave that subject. I did not have in mind coaching this witness.

MR. FENERTY: No, but it might place me at a little disadvantage because while I appreciate what Mr. Chambers has said may be purely in law, the legal end of it, I feel that others may have some other understanding.

THE CHAIRMAN: Yes, they might have other views too, Mr. Fenerty, including the Board.





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MR. FENERTY: What is that?

THE CHAIRMAN: The Board might have different views.

MR. FENERTY: Well that is something I might or  
might not expect.

Q There is just one thing more I want to ask you about. Would  
you pardon us just a minute till I get one document that I  
want to ask you about. Exhibit 73, Mr. Kirkpatrick, would you  
turn to that?

A Yes, sir.

Q Now I see in this Exhibit 73 you have a net adjusted value -  
this is dealing with your prepaid Girbotol royalties, a net  
adjusted value of \$19,726. and you have the next item add  
general overhead 9 per cent, \$1785.34 making a total of  
\$21,501.34. How is that general overhead of 9 per cent arrived at, Mr. Kirkpatrick?

A That is the 9 per cent that Mr. Hill has used in his over-all  
valuation.

Q I assumed so, yes.

A Yes.

Q Then I want to turn to Mr. Hill's 9 per cent. I see he breaks  
it down on page 14 of M-6, Exhibit 59. I see at the top of  
the page he gets 2 per cent allocated to the following:

"To construct a property of the kind and size of  
that herein under discussion in a year's time, will  
require the full time of a general manager, a field  
superintendent and a field supervisory and accounting  
organization, set up for the purpose. The cost of  
such an administrative organization in a job of this  
size generally amounts to about 2 per cent of its  
cost, including salaries and expenses."

Would you say that that particular 2 per cent that he arrives



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at has any application to this matter of pre-payment of the Girbotol royalty?

A Well, Mr. Fenerty, my understanding of the discussions with Mr. Hill as to that 9 per cent it does not apply specifically to any one piece or item of his appraisal report. He takes it and he says "to construct a plant of this kind," I believe he said in a year or something would require an organization and that total cost over and above the bare physical job would be 9 per cent and then he applied it and we have merely taken the same amount and applied it.

Q That is you just took the 9 per cent shown in his report but you would not think of using that 2 per cent here, would you?

A I would certainly say this if you were constructing this plant for the first time and amongst the expenditures incurred was one for pre-payment of royalty and a sum for an automobile and a sum for something else and the total overhead cost was 9 per cent I would think it fair to charge that, not as an individual item but to go out on the street and buy it.

Q Would you say in determining whether or not to prepay that you would need a field superintendent and a field supervisory and accounting organization?

A I would certainly say that on a construction job a field superintendent is the one who would have to devote some consideration to the acquisition of this process.

Q But as to whether he would prepay the royalty?

A Yes.

Q Are you serious about that?

A Yes, I am.

Q Will you tell me whether you are serious about the next item, "The over-all cost of engineering design and supervision would normally be equivalent to a minimum of 3 per cent." Do you





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suggest that has any relationship to prepaying the royalty?

A I do, looking at it not as a separate picture. Yes, I believe so.

Q That is the answer and that is your opinion?

A Yes.

Q And there is one part of the next one that I do not want to quarrel with, legal services. "Legal services, insurance, taxes and damages during the construction to one per cent." Now would you tell me just what, if anything, that has to do with the matter of prepayment of royalties?

A You are referring to Legal services and all the other items?

Q You connect it up yourself.

A I certainly would say there was no damage likely to be suffered in the acquisition or prepayment of the Girbotol royalties. But as I explained before, the 9 per cent which I have applied in Exhibit 73 I have not attempted to do otherwise than transfer that portion of Mr. Hill's total overhead to this particular item.

Q That is how you get the 9 per cent, you take his 9 per cent?

A That is right.

Q Whether it had any reference to this particular operation or not?

A Exactly.

Q Thank you.

THE CHAIRMAN: Mr. McDonald?

MR. McDONALD: No.

THE CHAIRMAN: Mr. Harvie?

MR. HARVIE: No.

THE CHAIRMAN: Mr. Blanchard.





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- 1884 -

CROSS-EXAMINATION OF THE SAME WITNESS BY MR. BLANCHARD.

- Q Were you the chief accountant of Royalite prior to your becoming secretary-treasurer of Madison?
- A No, sir, I was not the Chief accountant of Royalite prior to that time.
- Q Were you connected with the accounting department?
- A Yes, sir, I was.
- Q Referring again to page 14, the general overhead. I see that in Mr. Hill's M-6 report as part of the 9 per cent he takes interest during construction, an amount of 3 per cent. Was there in fact any money borrowed at all by Royalite?
- A No, sir.
- Q None?
- A No, sir.
- Q There was no interest paid on the capital?
- A No interest paid.
- Q There is a matter that I do not think is of any very great concern but I am still puzzled to know whether you have 5 or 6 trucks. It is more curiosity.
- A Speaking of as today or are you speaking of this original date of the appraisal?
- Q Speaking of the end of 1944.
- A As of the end of 1944?
- Q Yes.
- A We have the original number of trucks which was set forth on page 68 of Exhibit 59.
- Q Four?
- A Four shown there and in December, I believe it was December, I will have to check the date, we acquired another one-half ton truck.
- Q MR. CHAMBERS: What year?



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Cross-Exam. by Mr. Blanchard.

- 1885 -

A 1944. In the month of December, 1944.

Q MR. BLANCHARD: So that there were 5 trucks?

A There were 5 trucks.

Q There were the 5 trucks when Mr. Hill prepared his report M-6A?

A No, I would not like to say that. We have since acquired another truck in 1945.

Q Oh yes.

A His report is dated March 5th, 1945.

Q Then what I am getting at is this, there were 5 trucks at the end of 1944?

A That is right, sir.

Q And Mr. Hill values 4 of them?

A In his original report, yes.

Q One of those 4 was the worn out truck?

A Well the truck might have run. We might say it was worn out but it was still in operation.

Q And continued in operation?

A And continued in operation and I believe is still in operation at this very moment.

Q I was misled by the wording of the statement in M-8 which states that the truck was worn out and had to be replaced, that is all.

A Yes, sir, and I explained that yesterday that that is a mistake in the wording of that particular report.

Q Yes. Now then I would like to deal for a moment with working capital. Do I understand from your evidence yesterday that you were asking for \$100,000 working capital?

A Cash working capital.

Q Cash working capital and that is over and above the inventory?

A Yes.

Q And that in doing so you are assuming that you will not require any of that to pay the producers for their gas?





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Cross-Exam. by Mr. Blanchard.

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A That is my assumption, yes.

Q That is your assumption. So that the figure of \$100,000, was that adopted on the recommendation of Mr. Hill?

A Yes, it was initially adopted on his recommendation.

Q And that recommendation is contained in his report M-6?

A Yes, sir, it is.

Q And then he stated here in evidence that some \$40,000 of that required working capital was required to pay the producers for their gas.

A Yes sir, I believe I heard him make that statement.

Q Because the payments received by the Madison, the payments for gas from the gas companies would not be received by Madison until after the date of payment to the producers. And he said if the Board saw fit to postpone the time of payment to the producers till after the money was received from Madison's customers for the gas sold, then he would require only \$50,000 or \$60,000 cash capital, is that right?

A I think that was his statement, yes.

Q Where do you disagree with that?

A I disagree with him in this respect that even granting that Mr. Hill's \$60,000 figure is proper after the elimination of any funds required for the purchase of gas - and his \$60,000 incidentally corresponds very closely with the \$56,000 we have shown - it still does not provide there for those eventualities, some of them known and some of them perhaps not yet effective for the type of expenditure that we set forth in our submission, namely charges of a peak operation and prepaid expenses of the type and character we have set forth there. In my opinion, something over and above a fair minimum working fund - I believe I called it yesterday a cushion - which may be 10 or 15 thousand dollars.





W. C. Kirkpatrick,  
Cross-Examination by Mr. Blanchard.

- 1887 -

Q We are to take it then that when you prepared your submissions M-7 and M-9 you then assumed that the Board was going to postpone payment to the producers until after the Madison had received payment from its customers.

A At the time of the preparation of this report M-7, the calculation was based on the assumption that there would be a time lag between the two, the receipt of funds from the customer and the payment to the producers sufficient for that to finance itself.

Q If the Board does not do that, will you require another \$40,000 or \$50,000?

A I would say we would require something more than this figure shown here.

Q You see you did not qualify it in your submission and that is the reason I am asking you.

A Yes, sir.

Q Now then your \$100,000 of cash working capital is to provide for contingencies during a period of approximately  $6\frac{1}{2}$  weeks in each year, is that correct? An eighth of a year.

A No, that is not what I had in mind. The contingency fund is to provide for funds throughout the year for payments as they may arise.

Q Will you not have ample cash in hand say after the 1st of May in each year to take care of your capital expenses for the purchase of materials, that is for capital investment and for payment of your wages and salaries and payment of any of those contingencies. Will Madison not have ample funds in hand after May 1st of each year?

A Madison will have an increasing amount of funds progressively throughout the year and that increase of funds is composed of a return on its operating expenses, its bare operating expen-



W.C. Kirkpatrick,  
Cross-Exan. b Mr. Blanchard.

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ses and the depreciation and the profits as they may eventually be set and the funds will necessarily increase throughout the year. But I suggest that as a starting point the cash working capital should be certainly sufficient to provide funds at the outset for bare operating expenses and as computed by me at \$56,000 and for an additional sum necessary to provide for those other peak operations and prepaid expenses. I certainly cannot deny the funds will be there from other sources.

Q Is there any way we can get around somebody paying \$16,000 approximately in interest for this \$100,000 cash capital. Is there any way we can get around paying that large sum for interest by borrowing it?

A If the Company went out and borrowed that money.

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W. C. Kirkpatrick,  
Cross-Exam. by Mr. Blanchard.

- 1889 -

Q The Company's credit is perfectly good?

A Well it has not been tested but I presume it is.

Q And I assume it is; actually, I am taking what Mr. Hill says, that the working capital is worked out on requirements for one-eighth of a year.

A That is, I understand, the effect, that is the method I know that he arrived at, taking one-eighth, and that is what we have used here.

Q Why do you take one-eighth?

A I took the one-eighth because Mr. Hill took the one-eighth and I understand he takes an eighth because it represents the period of capital operations during which the Company is spending funds and not getting any in.

Q And by the 1st of May you will have ample funds to carry you along, without requiring, without resorting to that cash capital?

A Yes.

Q So from that point on, that cash capital is not needed for the rest of the year?

A Yes, but remember the excess funds there have arisen, during the remainder of the year arise from various sources, they arise from earnings, they arise from depreciation - -

Q That may be but the money is being spent for something the Company has to pay for, namely, your direct operating costs, wages, salaries, insurance, and things of that kind; now my estimate of the thing is that you by borrowing from the Bank or some other way, you would only pay about \$1,000.00 interest for the funds required for two and a half months as against \$16,000.00 that someone has to pay for interest on carrying this \$100,000.00 through year after year. Is there any way of getting around that, as a business man?





W. C. Kirkpatrick,  
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A Well I certainly agree with you that if you went to the Bank and borrowed money and utilized that temporarily for your purposes you would certainly be saving money to the consumer but I do not necessarily agree that that is a proper way to do it.

Q Well - -

A I might say this - -

Q You speak of the purchase of materials for instance, is it not a common practice for any Company in purchasing materials, if it has not the cash on hand, to go to the Bank and borrow that money temporarily, to cover the purchase of materials, if it is going to get a discount, for instance?

A I presume it is. It has never been my experience of course.

Q You would pay the Bank possibly 5% interest, would you. However that is all right. Now I am going to read you something and ask you if you agree with it; it is from Barnes Economic Public Utility Regulation, Page 496, and speaking of working capital:

"The allowance need not equal the maximum sum which the Company might conceivably require to meet emergency conditions. It is both possible and proper for a utility to plan to meet extraordinary requirements through temporary borrowings."

Now you are setting up this amount for working capital on the assumption that this Company should not borrow money, that is correct in any event?

A That is right.

Q Now one of the three matters you mention as "contingencies" is insurance and you say your policies run from the 1st of January for three years, that is correct, your policies are for a period of three years?



W. C. Kirkpatrick,  
Cross-Exam. by Mr. Blanchard.

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A That is right.

Q And you get half a year's interest or half a year's premium by paying in advance, that is correct?

A That is correct, yes.

Q And that half a year's premium would amount to \$3,000.00, you would gain \$3,000.00 in the half year's premium?

A That is right.

Q By paying the \$18,000.00 in advance for three years, that is right is it?

A That is right.

Q Could you not rearrange your insurance so that the policies would date from May 1st to May 1st?

A For a one year period?

Q No, for three year periods, instead of from the 1st of the year?

A Oh unquestionably you could.

Q Then you would avoid having to have cash working capital for that item at the first of the year by so doing?

A Yes, by borrowing some of the funds or using those funds which have arisen.

Q No, by rearranging your insurance with the Insurance Company so that your premium is payable on the 1st of May instead of the 1st of January, every three years, I mean is that something, is that an absurd suggestion to you?

A No, not at all. You could rearrange those policies for different dates.

Q THE CHAIRMAN: Mr. Kirkpatrick, you agree I am sure that in practice you do not open a working capital account in the Bank and when that is depleted you say "Well I am sorry we have no more working capital", you use whatever funds you have, no matter from what source they arise?





W. C. Kirkpatrick,  
Cross-Exam. by Mr. Blanchard.

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A That is right.

Q That is as a matter of practice?

A Yes, it all goes into one pot and it is taken out of that pot.

Q MR. BLANCHARD: May I ask you whether you have your figures for the total historical costs for these items covered by the appraisals M-6 and M-6(a)?

A No sir, I have not.

Q You have not those?

A No sir.

Q Have you seen Mr. Hamilton's submissions?

A Yes.

Q Are his figures correct on that?

A We have checked Mr. Hamilton's figures and we, I believe, are in substantial agreement with him as the last time I was speaking to Mr. Hamilton we had a small difference of some two thousand dollars which was being investigated. Otherwise we are in agreement with his results.

Q I see. Another of the contingencies which you anticipate you will need cash working capital for, is the rate hearing costs?

A Yes.

Q You do not expect to pay those out of your working capital?

A No, we expect to pay them though when our assessment is received.

Q They will be paid sometime but if they <sup>do not</sup> fall in the first two and a half months of the year they can be met without having additional capital?

A By drawing upon the general funds, yes.

MR. CHAMBERS: The amount might have something to do with it.

MR. BLANCHARD: All right, that is all.





W. C. Kirkpatrick,  
Re-Cross-Exam. by Mr. Fenerty.

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THE COURT: Anything further from Mr. Kirkpatrick?

MR. FENERTY: Mr. Chairman, there is something I omitted to ask and may I ask it now?

THE CHAIRMAN: Yes.

RE-CROSS-EXAMINED BY MR. FENERTY:

Q You are an Accountant, are you, Mr. Kirkpatrick?

A Chartered Accountant, no.

Q No, but a practical Accountant?

A I suppose you would call me that.

Q That is your field of endeavour?

A That is my field of endeavour, yes.

Q Were you engaged in that capacity with the Royalite Company prior to the incorporation of the Madison?

A I was.

Q You did volunteer to me a statement that the Royalite Company had not set up its books showing the operations of the gas division and the other divisions in the way I had suggested?

A No sir.

Q I say you did volunteer that statement?

A I volunteered the statement that they did not have it set up in that way.

Q And I gather from that, that you have a knowledge of the set-up as between the divisions of Royalite, prior to the incorporation of Madison?

A As I mentioned they did not have it set up as a department nor as a division.

Q THE CHAIRMAN: No, but what Mr. Fenerty is asking you, since you were an accountant in Royalite, you must have a knowledge of all these accounts?

A All of the accounts for instance in their books?



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Q Yes.

A Oh yes.

Q MR. FENERTY: The way that the matter was handled by Royalite?

A Yes.

Q Now can you tell me how that matter was handled by Royalite. Now do not answer for a minute.

MR. CHAMBERS: I did not get your question.

MR. FENERTY: I want to know how the natural gas division was handled by Royalite.

MR. CHAMBERS: Well I submit now that what Royalite did prior to the passing of this Act has nothing to do with this inquiry at all.

MR. FENERTY: That may be so.

MR. CHAMBERS: That is my submission.

THE CHAIRMAN: Mr. Fenerty can ask Mr. Kirkpatrick, and I will order him to answer, any questions that arise out of the operations of Royalite prior to the formation of Madison, for the simple reason that a change of name to me makes no difference at all.

MR. CHAMBERS: I am not speaking of that at all. I submit if Royalite had still owned this division, that what Royalite did in private practice, using that term, does not affect what the situation should be under Public Utility regulation.

THE CHAIRMAN: No, but that situation may enable us to determine properly what we should do today. For instance if we find that Royalite was very, very successful and made large profits at  $7\frac{3}{4}$  cents per thousand cubic feet, that might have a profound effect upon what we might do with some of the





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items that come before us now.

MR. CHAMBERS: I do submit that past profits or past losses prior to regulation is one thing that this Board cannot be governed by.

THE CHAIRMAN: Well I may be quite mistaken, Mr. Chambers, but in the meantime, and my application of it may be entirely different to what I am now suggesting, but in the meantime there is a witness in the box who has knowledge or may have knowledge and if he has that knowledge I think Mr. Fenerty is entitled to cross-examine him on that and I am going to permit him to do so. It may be that because of the way that Royalite kept its books in the past, and of which I have no knowledge at all, it may be that cross-examination of this witness may be such as to alter the situation, but the method of keeping the books cannot be used as a reason why the witness cannot give information and so I am going to allow Mr. Fenerty to cross-examine this witness to the extent of his knowledge.

WITNESS: Would you mind repeating that question, sir?

Q MR. FENERTY: Well what I want to know is just how the natural gas operations of the Royalite Company were handled in the Company's set-up in its books?

A On the Royalite Company's books?

Q Yes.

A Well the Royalite Company has operated for a number of years, certainly in the years that I have been here, with a set of accounts which are on a corporate basis; in other words, I mean they did not have individual sets of accounts or individual sets of books which reveal that this is the natural gas operation or that this is the natural gasoline operation or





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that this is the drilling operation. They have a series of accounts which reflect various phases of those operations, such as gas gathering lines, boiler plants, gasoline plants, etc., but there is no one single set of accounts in those records which of themselves, which are identified as the natural gas or gasoline or other operation.

Q Well now do you remember in Mr. Hill's report, a statement by him that the Royalite Company - -

A Which report would that be?

Q Yes, it is found at Page 19 of Exhibit 59, Mr. Hill's first report, at the top of the page, I find the following:

"The Natural gas division of the Royalite Oil Company Limited has been in successful operation since prior to 1927."

From your knowledge of the situation would you say that that is a correct statement?

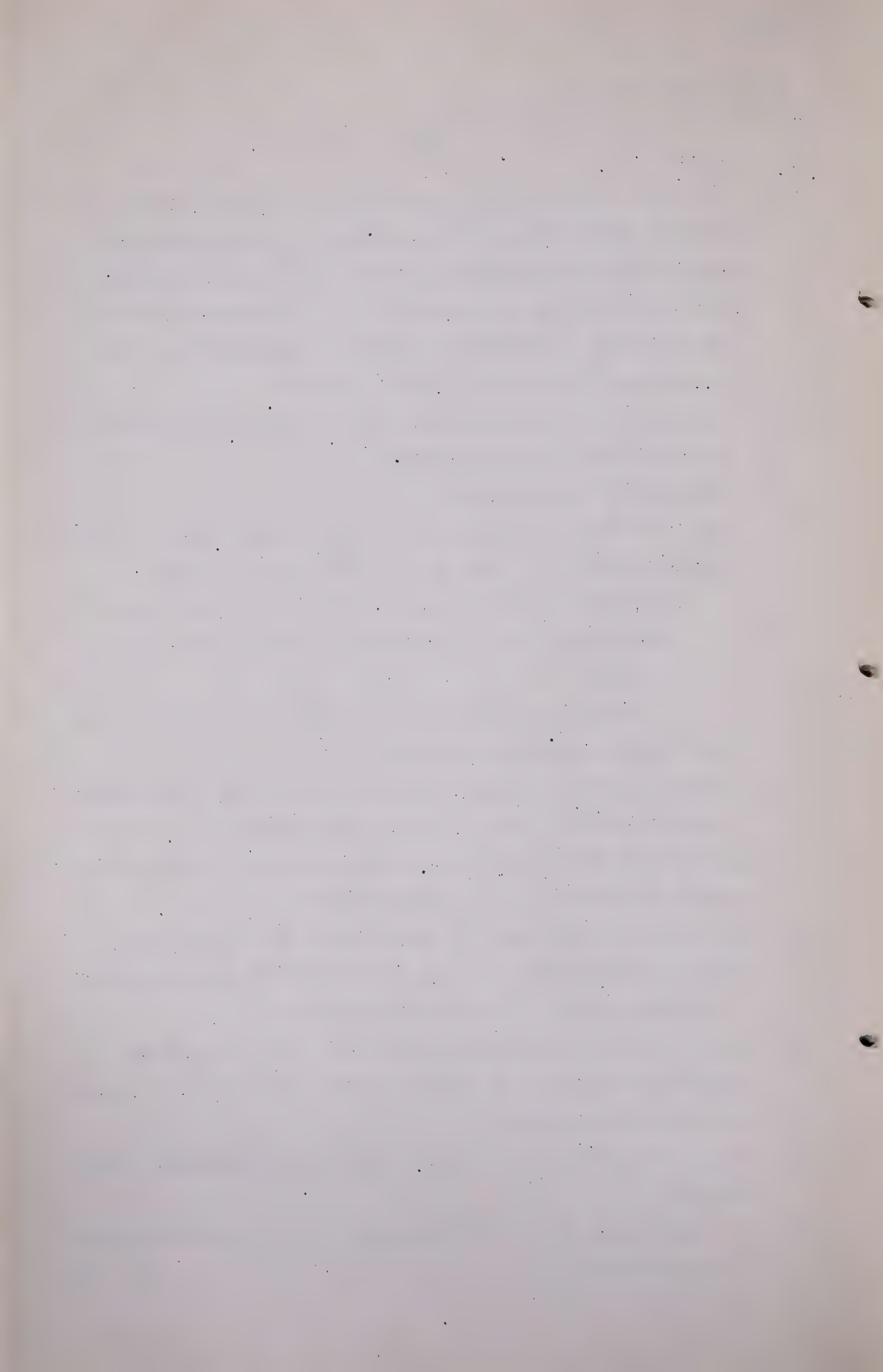
A I cannot speak as regards whether or not it was a successful operation prior to 1927. I have been employed, was employed with the Royalite Oil Company from very late in 1939 and my knowledge does not extend back that far.

Q But from your knowledge of the books of the Company were there any statements prepared at any time which did show the operating results of the natural gas division?

A There were statements prepared at times which showed the operating results of the natural gas division in its residue gas operating aspect.

Q Yes, and do those show what Mr. Hill terms "successful operation"?

A I would assume them to be successful for the years for which I have reference.



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Q Do you know what they did show, I take it you have not got them?

A No sir, I have not got them.

Q And you have no access to them but there were at some time in existence statements showing results of the natural gas operations?

A That is correct.

Q And in those statements was there any division of operating costs or were they founded on any division of operating costs?

A Operating costs in what respect, sir?

Q Handling the gathering lines for instance?

A Oh yes, certainly.

Q And do you remember how they were divided?

A I certainly do. They were divided on a basis of gross realization from the two plants which were affected by them.

Q Gross realization?

A Gross realization.

Q And in your opinion is that a fair way of dividing them?

A I would say this, that for the purposes for which those statements were prepared, it was a matter of indifference how they were divided because it was a combined result.

Q That was not what I happened to ask. Now will you tell me whether in your opinion that is a fair way of dividing them?

A It is one way.

Q I did not ask you whether it was one way?

A No sir.

Q I asked you whether it was a fair way of dividing them?

A I do not now think it was a fair way.

Q I see.

A In my opinion the proper way to divide those costs are as we





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have subsequently shown them.

Q And at some stage in the past did you think it was a fair way?

A I had certainly no objection as to the basis on which it was done. I was not deciding whether it was fair or not. It was showing the total combined results of two operations.

Q And did your objections to it originate at any time, or about the time of the passing of this Act, this Utility Act, did it happen to coincide with the time that this Act was passed?

A My view of the distribution of operating costs of the gas gathering system insofar as the present proposals by Madison are concerned were certainly, came into my mind after the formation of the Madison Company, yes.

Q I will put it this way, that prior to the formation of the Madison Company you had no objection to that set-up?

A Because of the circumstances under which those statements were being prepared.

Q And because you say everything was under, in the hands of one organization?

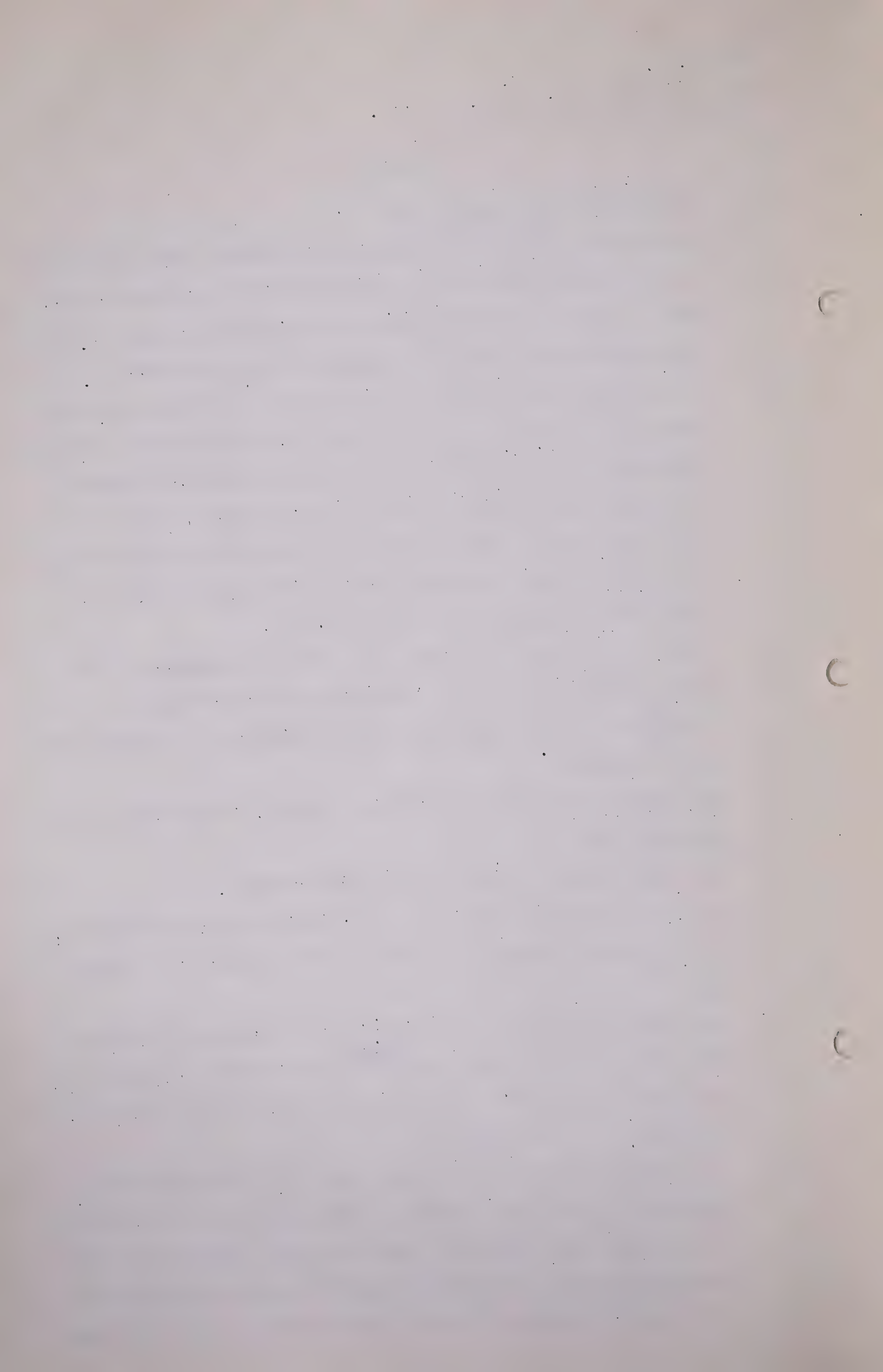
A One common organization handling the control.

Q Yes, and now I am right, am I not, that you have no corporate entity, wholly owned and controlled by the Royalite Company?

A Yes.

Q And your opinion that the technical separation by a corporation of a wholly owned Company/<sup>which</sup> results in the set-up used by the Royalite Company, the basis of values is no longer fair or proper, is that right?

A I would like to put it this way, that as I mentioned before, the circumstances and conditions under which the division of those costs were prepared in the past was immaterial in the long run because it combined those but in the formation of the Madison Company we are now faced with an operation which





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requires a proper and more scientific distribution of those costs and my view has changed. If I am wrong I am certainly willing to be corrected but that is my view now.

Q It happens to be your view and you are entitled to your view. Now tell me, have you any recollection of working it out on percentages, what that resulted in as to the relevant value?

A Prior to 1944?

Q Yes, when you set up - -

A I would have to quote roughly from memory.

Q You can make it as roughly as you like.

A I would say forty to sixty.

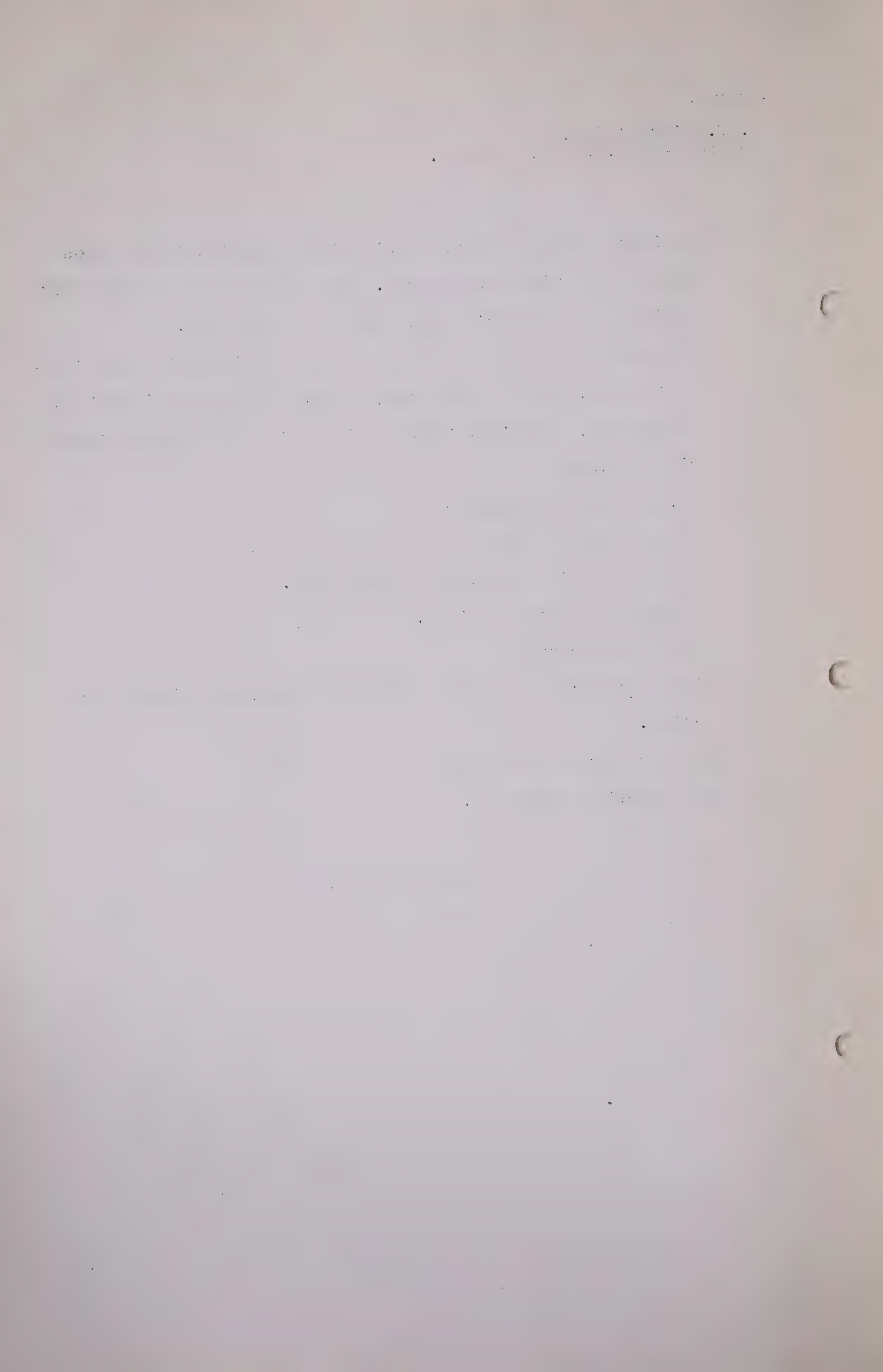
Q Which was forty?

A Sixty I think was the natural residue gas, that is my recollection.

Q And forty was the gasoline?

A The gasoline operation.

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- Q I see. Do you know anything how long, in your examination of the books how long that system persisted?
- A That system has never persisted in the books. That was used in the preparation of the statements of the individual accounts.
- Q About how long had it persisted?
- A To my knowledge those statements along those lines had been prepared for two years.
- Q But prior to the preparation of these statements for two years, you do not know what took place back of them?
- A No sir. My work does not involve the necessary knowledge of what it was.
- Q And that system of division continued until when?
- A Well, statements were prepared in the year 1943 along those lines.
- Q Thank you, Mr. Kirkpatrick.

.....

EXAMINED BY THE CHAIRMAN.

- Q Mr. Kirkpatrick, if you were the manager of a company that was operating three divisions in half a dozen branches and your overall picture was satisfactory and you were able to pay a dividend, would you not as a manager desire to know if each department was carrying its own share of the load?
- A I, as a manager, would want to know what the position was with respect to each of those departments, with the knowledge that certain of the expenditures would have to be arbitrary, but I would have to have some picture as to the breakdown.
- Q And if one of those branches that I am talking about was not paying its way you would probably eliminate it?
- A No, not necessarily. It might be an unprofitable operation but yet it would be a necessary adjunct to the whole.





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Q But that is the purpose of preparing statements as far as can be done scientifically with relation to each department?

A That is correct.

Q So that the manager will know what is going on?

A Exactly.

Q And such statements were prepared in respect to the company's various operations?

A They were prepared with respect to the total operations and broken down for various purposes.

Q And did you have a breakdown for the production division, the oil division, the absorption plant division and the gas division?

A The breakdown which I am talking about, there were special statements prepared with regard to the natural gas and the gasoline operations as a combined operation, and there were other statements prepared with respect to production as a whole, the gasoline, natural gas and sundry. Now this statement which I last referred to, the sundry operations, is one which is not involved with production of the gas.

Q My point is that there are statements showing the results of the operations of each of the various divisions of Royalite?

A That is correct.

Q And how often were these statements prepared?

A Once annually, to my knowledge.

Q Do you know when the Company commenced preparing those statements.

A I think with respect to the year 1940 or '39, I am not certain.

Q It did not start in 1943, for instance?

A Not the total over-all breakdown of the total operations, no sir.

Q Was there anything special done in 1943 with regard to various departments and the breakdown of operational expenses and so on?

A Yes, statements were prepared in 1943 with reference to the





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natural gas and gasoline operations.

Q And why was that done especially in 1943?

A That was done specially in 1943 for submission to the Conservation Board, and the matter of compensation.

Q Mr. Kirkpatrick, are you familiar with the agreement between Royalite and the Gas Company respecting re-pressured gas in Bow Island?

A No, only in a very general way. I have read it two or three times but not recently.

Q Would you care to express an opinion as to whether or not under all the conditions that now prevail, if it would be better if that contract were assigned to Madison and eliminate the complication of everything, eliminate the complication of having Royalite in the picture.

MR. CHAMBERS: Now, sir,.....

THE CHAIRMAN: I am asking him if he cared to express an opinion. If he does not he does not have to.

A THE WITNESS: I do not care to express an opinion at the moment. I have not studied it and I do not care to.

Q That is perfectly all right. I do not expect you to strain your imagination or your knowledge. If you do not know, tell me.

A No sir, I do not feel that I would, sir.

Q And I will accept your word without any question. Now the Madison Gas Company was formed in 1943?

A Incorporated on December 15th, 1943.

Q And when did it commence operations?

A January 1st, 1944.

Q And do you know if the Company was incorporated because of the impending passage of the Natural Gas Utilities Act?

A I believe that there were signs that the natural gas was



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becoming the source of some activity and some exhaustive inquiry, and the purposes of that operation was to have a separate entity so that the operation could be seen and examined with respect to that particular phase of the Turner Valley operation alone.

Q Have you any idea whether the Madison Natural Gas Company would have been formed or incorporated whether the Natural Gas Utilities Act had been passed or not?

A I have never heard anything that would lead me to believe that.

Q But the fact is that the Company was incorporated, was in existence and was in actual operation for some months before the Act was passed?

A Yes sir, the Company was in operation for about three months.

Q Is it correct to say that the Madison Gas Company does not own any gas wells or any sources from which it can draw gas which is its own property?

A That is a correct statement. It does not own any wells or producing from any.

Q And the Madison Gas Company does not and will not as presently contemplated own any re-pressured gas?

A No sir, it does not own any and I understand it does not contemplate it.

Q And its intention is to restrict itself and its activities to wholesale customers only?

A Yes sir.

Q So that we gather that Madison's only function is to handle natural gas, to give a service in other words?

A Yes sir, that is true.

Q Now, again I would like to ask you to express an opinion, if you have one, Mr. Kirkpatrick. Assume for a moment that the Madison Gas Company is not an affiliated company of the





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Royalite Imperial Oil, assume that it is a distinct and separate entity, if you assume that would it not have been better for the Madison Gas Company to have acquired the gas cap or a storage area as being a part of its function to handle gas.

A Well sir, it is my opinion for what it is worth, assuming that the Madison Natural Gas Company was a company with no direct relationship with the Royalite Oil Company, that <sup>it</sup> might consider the ownership of the gas cap, but I would say this, that it would achieve the same result if it could enter into contractual agreements with the owner of that property. In other words, I would say that the Madison Company would want to be assured of a source of supply under that assumption for a continuance of business for some considerable years to come.

Q That is you would own the gas cap for the storage purposes just as it owns the gathering lines?

A In my opinion it is not necessary that it would have to own it for storage. Again I should say it should own it or have an agreement with the owner of that property which would guarantee it.

Q And then if you envision a situation where the owner of the gas handling system and the owner of the gas cap were such deadly and bitter enemies, I cannot imagine that, of course, applied to your company, but if that happened, would not the Madison be in a very difficult position if it could not get contractual relations?

A They certainly would.

Q Now in your Exhibit 73, and throughout those of your Company's submissions that I have read, your net result is predicated on a rate of  $9\frac{1}{2}\%$  per annum on your rate base?

A Yes.





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Q And if we follow the public utility practice and allow you that free from income tax, the net result is somewhere in the neighbourhood of 15.8%?

A Yes.

Q Now with the situation we have now, if the Madison Gas Company went into the money markets of the world with a rate of  $9\frac{1}{2}\%$  free of income tax, would they have to depend upon Royalite or Imperial Oil for capital, do you think, Mr. Kirkpatrick?  
As a business man?

A You mean, sir, would they attract independent capital?

Q Yes, would they attract independent capital?

A I think they could.

Q The power plant and the steam plant formerly owned by Royalite have both been transferred to Madison?

A Yes sir.

Q And the valuation of those plants is included in the rate base?

A Yes sir.

Q And then it is assumed that the Company will ask for a rate of return on that part of the rate base represented by these two plants?

A Yes sir, that is correct.

Q And Madison will then sell steam to Royalite for various operations and will sell power to Royalite for various operations?

A Yes sir.

Q And that is not done at the present time, you simply allocate the costs?

A Oh no sir.

Q Well prior to 1944?

A Yes, prior to 1944.

Q You simply allocated the costs?

A Yes.



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Q And did you allocate the cost on the then historic value of your plant?

A The costs at that time were merely a distribution of the operating costs and the depreciation as closely as it could be estimated in accordance with the volume utilized by the plant.

Q That is all you needed to do?

A Yes.

Q But depreciation at that time would be based upon the historic costs of the two plants at that time, would it not?

A Yes, the original cost.

Q To which would have been applied depreciation for a number of years?

A Yes.

Q Would it be fair to say that the new rate of depreciation on the rate base to be fixed if we adopted Mr. Hill's figures, will increase depreciation rates very materially?

A Well they will increase the depreciation rates to the extent that the difference between the gross historical costs and the reproduction costs has been appraised to have individual rates for per thousand pounds steam or per kilowatt hour generated and the decreased cost depreciation is being computed on a different formula.

Q Yes?

A I am referring to the fact that Royalite has computed its depreciation on a short straight line base whereas our proposal is that it be computed on the life of the field.

Q But it is a fact that this <sup>8</sup>15.8% per annum, no matter what your rate base is going to be, will increase the cost of steam and power to the other divisions of Royalite?

A Yes sir, it will.

Q And that actually will not affect the Royalite because it all





E. C. Kirkpatrick,  
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goes into the common pot in the end?

A That proportion would come back to it.

Q So that the producer of the field whose gasoline is going to be extracted through the absorption plant may very well be affected by the increase in cost which is going to be incurred through the transfer of these two plants to Madison.

A Well sir, if I understand your question, you are referring to the fact that any increase of the cost of power and steam which ultimately wends its way to the gasoline plant, would affect the producer?

Q Yes?

A No, not under the present arrangement, because his share is 20%. A different percentage could be established of the gross realization so that the operating cost in this case would not affect him.

Q What about the well head price? Would there be any relationship between the power and the well head price?

A I do not know that. It would depend upon the formula eventually used to determine that.

Q All right.

Q DR. BOOMER: I did not quite understand that remark you made about the effect of the cost of power and steam on the absorption gasoline realization. The Board will fix the proportion, whatever it might be, and would that go to the operating costs of the plant?

A As presently expressed the percentage is 20% of the numbers of dollars received for each barrel of liquid content extracted. If that is to go to operating costs, then of course it has an interest, but since we are speaking of the 20-80.....

Q I know what the 20-80 is based on, but let us assume that we examine the 20-80, and determine with regard to it. Any





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such examination must be based on the operating costs of the gasoline plant.

A I would presume so.

Q Then the price of power and steam would enter into that?

A Yes, they would have an ultimate influence on the percentage.

Q One other thing. The Chairman asked you about the preparation of statements showing the division of the gas and gasoline business from the rest of your business, and I believe that you answered him that the last statements were prepared first in 1939 or 1940?

A No sir, I said I believe my remark was intended to say that the statements with respect to a breakdown of the total operation had been made around 1939 or '40.

Q Will you tell me the reason for that?

A Yes, they were prepared with respect to the income tax as it related to the Royalite Oil Company Limited to determine what of its operations produced what proportion of taxable income.

Q All right.

THE CHAIRMAN: We will give you a rest for a few minutes now, Mr. Kirkpatrick.

(The Hearing then took a short adjournment).

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THE WITNESS: Is there something else, sir?

THE CHAIRMAN: There may be.

MR. CHAMBERS: We are through with Mr. Kirkpatrick, sir.

THE CHAIRMAN: With this exception, Mr. Chambers, that Mr. Steer may wish to cross-examine.

MR. CHAMBERS: Yes.

THE CHAIRMAN: And Mr. Blanchard mentioned to me that he had not had an opportunity of examining these exhibits of which only limited copies were available yesterday and he may desire to cross-examine on those later. So subject to that and unless you have further re-examination, I think we are through with Mr. Kirkpatrick.

MR. CHAMBERS: I may say Mr. Kirkpatrick is going to be called again on another subject as you know.

THE CHAIRMAN: Yes. Thanks, Mr. Kirkpatrick.

A Thank you, sir.

MR. CHAMBERS: There is one statement I want to correct. There is not anything particular turns on it but I think in the record Mr. Kirkpatrick said the original capitalization of the Madison Company was 2,900,000 shares. It was 3,500,000 shares. Some were not issued. Some have been issued since in connection with new construction. So to keep the record clear the actual authorized capital was 3,500,000 shares. There was one other statement I would like to make, and it is because of my personal knowledge of what led up to the formation of Madison Company. Mr. Kirkpatrick does not know about that. In the Fall of 1943 there were various negotiations and correspondence between us and Mr. Frawley when this particular act was not thought of but there was a discussion dealing with the Turner Valley situation. I do not know - I am sure there was no talk of a





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Natural Gas Utilities Act. They all might have had it in mind as a possibility but in any event in the Fall, in December of 1943 the Company as a matter of policy decided to put that Natural Gas Division under one separate company. That really was what brought it about.

I now propose to call Mr. Stevens-Guille.

H. LeM. STEVENS-GUILLE (Recalled)

by Mr. Chambers:

Q Mr. Stevens-Guille you are still under oath?

A Yes, sir.

Q And I think you told us before that you are the field superintendant in charge of Madison's actual operations and its plant and system in the Turner Valley field.

A That is correct.

Q You are a director of the company?

A Yes.

Q Now you have read and I take it you are familiar with Exhibits 59 and 60 which are Mr. Hill's valuations or reports.

A Yes, sir.

Q And in those two Exhibits 59 and 60 he has valued what purports to be the system owned by Madison?

A That is right.

Q And Mr. Kirkpatrick yesterday, as secretary of the Company, told us the steps that they had taken, that he had taken to verify the acquisition by Madison of what Mr. Hill had valued. Now I am going to ask you as the man on the ground to tell us about the system that you have down there actually under your charge that Madison acquired from Royalite, and the function it performs. I am going to ask you to go into it in quite some detail and explain exactly what you have taken over and what it is used for. Have you got a map?





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A Yes, sir.

Q Is that the one attached . . . .

A That is attached to the report M-8, sir.

THE CHAIRMAN: Perhaps we had better put in report M-8 and leave the reading of it until you are ready.

MR. CHAMBERS: Yes, and then we can refer to it as Exhibit 77.

REPORT "1944 Construction and Estimated Construction in 1945 to 1948 - Material and Supplies, prepared by H. LeM. Stevens-Guille" (Report M-8) IS NOW MARKED EXHIBIT 77.

Q Mr. Stevens-Guille, as you go along, you have heard most of the evidence that has been given and you have heard probably some of the questions that would indicate that parties had some doubt in their minds as to why we would take it over. If you have any knowledge of that I would ask you to volunteer it as you go along.

A Before reading the Report M-8, I would like to preface it with some information which I think is of importance, speaking, as Mr. Chambers said, from the point of view of the man on the ground. I think it might be useful to point out that I have been in Turner Valley since 1928 and connected with the gas and gasoline side of the business continually from that time. Therefore I am acquainted with the history of the operations. My responsibility has been an increasing one during those years. Therefore I am in the fortunate position of being able to speak with knowledge of what went on but yet I do not have to make it a recital of anything I have personally done.

The first point I want to make is that Madison took over from Royalite the obligation that Royalite had of supplying gas to the Canadian Western. Royalite as has already been mentioned here, had, I think the word used was



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enjoyed an exclusive contract for supplying that gas. But a very definite obligation went with that contract. Except to a small extent, Turner Valley was the sole source of supply of gas for the Canadian Western system. It was therefore necessary that Royalite should be able to supply at all times the demands made on it by the Canadian Western to supply its customers. That had to be a 100 per cent continuous service and that is an extremely important point. Royalite, to my personal knowledge, took that obligation very seriously. The late Mr. J. H. McLeod, who was president of Royalite during those years, always insisted that in designing anything or preparing anything that had to do with that supply of gas the primary consideration must be given to continuity of supply. Now to be able to supply 100 per cent continuous service from what is essentially a mechanical operation is making a very heavy demand on every factor that goes into the composition of that operation. It is not only the engineers but every layman today who is well acquainted with the fact that few if any mechanical contrivances will operate 100 per cent. We all know that cars will not operate 100 per cent. They have to be turned in for repairs, servicing and so with all the mechanical contrivances one has around one's house, the washing machines, refrigerators, everything requires some service time. But that service time is not available as a whole to gas supplying operations in Turner Valley if it is to provide the essential service to the Canadian Western. Now when Madison was formed, that obligation was, as I said, passed from Royalite to Madison. Therefore everything that was done had to be done with this over-all thought in the minds of the people who were handling the situation and I think if that is borne in mind it will be far easier for everybody to understand why some of the things that, from what has already been spoken





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in here, would appear to be difficulties, exist.

Q Mr. Stevens-Guille, so as to make it clear, you yourself were consulted and are partly responsible and substantially responsible for what was taken over, is that a fair way to put it?

A Very definitely, Mr. Chambers, As at that time when the probability was that I would have the responsibility of seeing that this obligation was discharged I was asked for my opinion and I gave it on what would be required to be able to continue the record that Royalite had established of service without any interruption. It was definitely put to me that excuses for not performing the service were of no value at all; that we had got to have everything set up so that insofar as it is humanly possible there would never arise an interruption in the service. Now it is probably within the knowledge of everybody but for the purpose of the record it might be well to recall that in the 20 years very nearly that Turner Valley has been the source of supply of gas to the Canadian Western, there has only been one interruption in that service. That was for a matter of from some three to four hours in 1932 and therefore constitutes a percentage of service which runs into 99. so many recurring 9's that it is a record, I think, that is a very important point in what I am going to say.

Q Mr. Stevens-Guille, as a matter of interest would you tell us about that 1932 interruption? Was there a fire?

A It resulted in a fire. It originated in a line breakage in 20 below weather almost precisely at noon on Sunday, January 31st, I think it was, 1932. The break caused damage to a pre-heater used for warming the gas prior to the gas being processed in an absorption plant. That is to say there was no absorption plant in existence at that day. The gas escaping caught on fire and the first thing that had to be done was to put that fire out





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and then to repair the portion of the break to be able to re-establish service. Now that record of 20 years' service with the one interruption just mentioned was not attained by chance and I think it is fair to say by good luck. It was attained because careful consideration was always given to providing 100 per cent continuity. Therefore when Madison took over it took over that obligation to give the same careful consideration to providing continuity of service. It might be well to remind people that while some people might be able to provide alternative means of heating in winter there are a number of people who would go cold if that service were to be interrupted for any length of time. Now obviously the chances of interruption are much higher in winter than in summer and also it naturally takes much longer to repair breaks in lines, failure in plant equipment and so on under winter conditions than under summer conditions. So thought must always be given to the possibility that trouble will develop at that time when it is most difficult to repair and also at the time when failure in service would have the most disastrous effect on the people dependent on that service. I think the easiest method of approach to go through each type of equipment taken over by Madison from Royalite would be to follow the flow of gas and to bring out points as we go along. So if you now turn to your maps which were in the back of the report M-8 which is now Exhibit No. 77, I would refer you first to Madison's main plants which are located in section 6 of township 20 range 2, W5. In following the flow of the gas we of course start with the gas gathering system, because Madison's operations start with taking delivery of wet gas at individual wells or batteries of wells. Travelling northwards, or northwestwards to be more precise, from that main plant -



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I am going to be a little inconsistent and travel the reverse of the flow along the lines because I think it will be easier for you to follow along the map that way.

Going back then to the lines which are travelling northwestward through Section 7 of Township 20, Range 2 West of the fifth, it will be seen that there are two such lines and I want to follow first the most westerly of those lines which, - pardon me, the easterly of those two lines, - which we call for operating purposes "gas gathering line No. I", which travels northward to the half section line in Section 7 and then goes due west to the mid-point of Section 12. It travels northward to the mid-point of Section 13, it then has a lateral which goes northward to Spooner's No. 2 and No. 4.

The main line goes westward from the middle of Section 13 to pick up Spooner No. I on the west margin of Section 13. The main line itself, continuing still westward to the mid-point of Section 14, passes Battery No. 8, that is Royalite Battery No. 8.

This map was made from a tracing belonging to Royalite and in view of the fact that we have not had time to redraw these maps to reflect purely Madison operations, and then travelling due westward still into Section 15 it angles northward to the centre of Section, there nearly to the centre of Section 22.

Now there is a point I would like to explain which affords a little confusion on these maps, not merely because they are Royalite maps but in order to show where the different wells are separated, that is to say, the crude oil and the gas is separated, which is produced at the individual wells, when those wells are handled at a central battery, we





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have also got the flow lines on this map. On a tracing the difference in thickness shows up quite clearly. On a print I am afraid the clarity is not all that could be wished for, so this line stops, this main gas gathering line No.1, at Battery No.7 in Section 22 and the line that travels north from that point through the centre of Section 22 and then westward to Royalite 70 is a flow line, that is to say crude oil and gas travels together in that line straight from the well head to the separator located at Battery No.7 and the separation is made at that point. That line does not belong to Madison. It belongs in this particular instance to Royalite and Madison has no interest in the process until the separation has been made at Battery No.7, at which point it takes over from Royalite through a meter the gas from Royalite 70 and the other wells separated at that Battery No.7.

That explanation applies to several other wells shown on this map and I think in most cases it is perfectly clear if you bear<sup>what I said</sup>/in mind, because wherever a well has a line going to a battery that line is a flow line and not a gas gathering line.

Q MR. CHAMBERS: And Madison does not own any flow lines?

A Owns no flow lines at all.

Just going backwards to Battery No.8 in Section 14 I would like to cover another point that has come up. It might appear that the wells separated in Battery No.8 are connected to the Madison gas gathering system. As a matter of fact they are not and they are shown as not being connected in our submission. These two wells, Royalite 56 and 60, are produced at too low a pressure to deliver it to that gathering line. That also applies in some other cases, that is to say,





a gas gathering line passes a battery but the wells in that battery are not connected to the line and while I am on that point I would also like to clear up the fact that in some instances the gas gathering line will be connected to a battery and only some of the wells being separated at that battery will enter the gas gathering system for the reason that those that do not enter are being produced at too low a pressure for the gas gathering line at that particular point.

I would like to follow now from Madison's main plant again in Section 6, the other gas gathering lines in the north end of the field, before covering some general points of these two lines, so if you will go back to the Madison plant and follow now the westerly of the two lines travelling northward through the southwest quarter of Section 7, you will see that it crosses over into Section 12 at the half-section line. Up to that point it is a ten inch line. From that point for a considerable distance northward it bifocates into two lines, one eight inch and one ten inch, and this might be the place to explain the reasons for having two lines.

They are not duplicate lines in the sense that either one of them can perform the service required. They are commonly referred to as "looped lines." The reason for it is this: Under the conditions of operation in which the line was originally laid the single line, which in this case was an eight inch line, had sufficient capacity to deliver the volume of gas available to that part of the system. At a later date the operating conditions through that portion of the system changed and one of two things could have been done, either a larger line could have been laid and the original line taken up or a smaller sized line could have been



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laid parallel with the original line, the capacity of the two lines being sufficient for the condition of operation at that part of the system. The general practise is to follow the latter of those two alternatives and it was followed in this case and also in other cases which we will come to later.

We left that line, having just entered Section 12, the two parallel lines travelling up through the centre of Section 13, then northwestward, they travel close to the centre of Section 23 and onwards to the boundry of Sections 23 and 26. From that point the line followed two different routes.

One portion goes westward to pick up gas from battery, Royalite Battery No.3 "a", then travels northward past the old location of Royalite Battery No.2. That does not now exist. The wells that were formerly separated at that point are now separated at Battery No.I, Royalite Battery No.I, to which the line continues and at Royalite Battery No.I a junction is again made with the other loop which has travelled in the most direct line.

The reason for these lines diverging and then converging again is that the direct line is a loop line. It was added afterwards when it was necessary to increase the carrying capacity of the system at that point. It was obviously more economical to lay the line on the shortest route.

Q THE CHAIRMAN: I notice the size of the pipe changes there too?

A That is correct, Sir. That brings in another point in designing the line, the pressure, the natural pressure of production of wells in this case is absorbed by friction in the line and is therefore a decreasing quantity as you travel from the wells to the plant, therefore the line sizes are increased as the





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pressure decreases to give the necessary carrying capacity to the system.

Travelling northwestward from Royalite Battery No.1 are two parallel lines, both six inch, picking up gas at various points from both single wells and batteries, crossing Section 33 and now in Township 20 of Range 3 West of the fifth and passing into Township 21 at Section 4 and at the centre of that Section is located Royalite Battery No.5.

I should have pointed out that at one legal subdivision south in Battery No.5 the loop line ceased and the single line travelled northward to Battery No.5. It then angles northwestward across Section 4 into Section 9, past Royalite Battery No.9, picking up gas through a lateral from the large Major Battery a short distance to the west in Section 8.

The main line travels northwestward from Royalite Battery No.9 into Section 8. It travels due west to the centre at which point is located Royalite Battery No.10 and from Royalite Battery No.10 an extension travels northwestward into Section 17 to pick up gas from the British Dominion and the Home-Millarville wells and that gas is the most northerly gas collected at the present time in Turner Valley.

Q MR. CHAMBERS: Mr. Stevens-Guille, as you go along, will you please, when you are dealing with the pipe lines, refer to the part which was built new in 1944?

A I was proposing now, having everybody there, to go back.....

Q THE CHAIRMAN: Before you go back to that, Mr. Stevens-Guille, does that most northerly line only take gas from British Dominion No.7?

A No Sir, that is something which I overlooked. When this map was produced, as you will notice, that portion of the map is an





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extension to the original tracing.

Q Yes?

A And the flow lines have not been indicated on this portion of the map to show which of these wells are separated at that battery but it takes gas from all wells in that area from the battery in legal subdivision 5 and legal subdivision 12, that are produced at sufficient pressure to enter the system.

You will remember that Mr. Hill was asked a question as to whether or not if he had to instal a gas gathering system in Turner Valley he would put in the lines in the way they now exist. If my memory is correct he said that he thought he substantially would. It will have been noticed as we travelled along these lines that they crossed the gas cap and are connected to the gas cap wells in that area as we go by. It will also be noticed that gas gathering line No.2, which is the line now that handles the larger proportion of crude oil gas contributory to compressor station No.1, has followed almost the most direct route possible.

Now I would refer you to the point I made about continuity of operation. That is a very important point in considering the setup of the gas gathering lines. It is within the knowledge of everybody here I think that there is water vapor in the gas produced in Turner Valley which has in the past provided a very serious problem in gas gathering line operations. It forms with some of the hydro-carbons contained in the wet gas a compound called a "gas hydrate", which resembles ice to look at but has the unfortunate characteristic of having a melting point far higher than ice at the operating pressures in this gas gathering system. This melting point, which incidently can be also taken as the temperature of the



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formation of the hydrate, is at the operating pressure which has been current in Turner Valley between 45 and 50 degrees F. It is therefore very necessary to keep the temperature of the flowing gas in the line above 50 degrees to be sure that no hydrate will form in those lines and build up a plug which will obstruct the flow of the gas and you therefore lose the supply of gas through that portion of the line to the plant. This problem has been overcome by the installation of heaters on the gas gathering system at suitable points, the gas being heated by steam, condensed steam, travelling back to the boiler on a continuous system just as a radiator system works in a building such as this where the radiators are placed above the boiler level and the elevation provides sufficient head as it is called, for the liquid to be forced back into the boiler.

Those are located at the following points on the lines we have looked at: On gas gathering line No. I in Section 12, Township 20, Range 3, West of the fifth, very close to Royalite No. 11, there is a gas gathering heater.

These gas gathering heaters were, you will remember, referred to by Mr. Hill in his inventory.

Travelling...

Q MR. HARVIE: There is nothing on the map to indicate them?

A Not on this particular map, no.

Travelling northwestward to Section 13 there is a double installation at that point with heaters on both gas gathering line No. I and on gas gathering line No. 2.

Travelling westward on gas gathering line No. I there is a heater at Spooner No. I and at Royalite Battery No. 7 in Section 22.





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Going northwestward on gas gathering line No.2 from the centre of Section 13 there is a heater at Royalite Battery No.6. Another at, close to the location of Foothills No.I in Section 26; another at Royalite Battery No.3 (a) in Section 22; another at Royalite Battery No.I in Section 27 and another at Royalite Battery No.5 in Section 4, Township 21.

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Another at Royalite battery No. 9 in Section 9, and another at Royalite battery No. 10 in Section 8. It is proposed to instal one or two additional heaters on that line in the current year to complete what is considered the necessary number to prevent hydrate formation in that line. That is based on operating experience and I will refer to it in more detail when I come to that statement in my report.

These lines, that is to say, the mains where they cross are inter-connected to provide the greatest assurance possible of continuity of flow at all times, and I have already, I think, made clear the fact that those loop lines are not put in as alternative lines. They are put in because the combined capacity of the loop is required to handle the volume of gas travelling in the line.

Now during 1944 the line was extended from Royalite battery No. 4 in Section 8 of Township 21, Northwestward to pick up those two batteries we have already referred to in Section 17 of Township 19. The main line or gas gathering line No. 2 was looped from a point in Section 33 to a point in Section 4, a point in Section 33 of Township 20 to a point in Section 4 of Township 21. That looping was necessary and was a necessary part of the extension because the additional volumes of gas that would be travelling in the line would cause too great a pressure drop in the line if the size of the line had not been increased.

The looping from the point in Section 33 of Township 20 back to battery 1 - no, I am wrong, I would like to correct the record there please. The looping done in 1944 was from No. 1, Royalite battery No. 1, in Section 27 of Township 20 to the end of the loop in Section 4 of Township 21. And the looping of the lines from Section 12 of Township 20 to Royalite



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battery No. 1 in Township 20 was done in 1943.

Q THE CHAIRMAN: That is in Section 27, is it?

A Yes, to battery 1, Section 27 of Township 20.

Q MR. CHAMBERS: That was done in 1943?

A Yes.

Q Then the 1944 loop, would you give us that again just to make sure?

A The '44 loop was made, from Royalite battery No. 1. Section 27, Township 20, northwestward to the end of the loop which is just South of the centre of Section 4 of Township 21, where the lateral comes in from the Valley Oil Operators' battery, where there are such wells as Millarville Royalties Nos. 1. 2 and 3, and Alberta Oil Incomes No. 2.

Coming back now to the Madison plant in Section 6. There are three gas gathering lines operating. No. 3 which goes westward to pick up Royalite 17 and the wells on the McLeod lease. It has an extension southwards still in Section 6 to pick up gas from the Okalta wells and Foothills 2 which are located in Section 1 of Township 20, in Range 3. It then extends across the Sheep River to Royalite 19, which is in Section 6 of Township 20, Range 2. In 1944 it was extended along the line shown blue on the map first southward and then westward to pick up gas which had recently been made available by drilling in that area. It is at the present time connected to Royalite battery No. 14 in Section 2 of Township 20, Range 3, and also to the Calmont 1A and 2A wells marked in Section 35 of Township 19, Range 3. Two further projected extensions are shown there marked in red, one going northwards from Royalite battery 14 to Royalite battery 13, and the other southwards to Royalite battery 15.

Q MR. CHAMBERS: Mr. Stevens-Guille, just pardon me





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for interrupting you, did you not say Okalta 2A?

A No, it was Calmont.

THE CHAIRMAN: Yes, Calmont.

A Calmont 1A and 2A.

Q MR. BLANCHARD: Is there already a line between  
batteries 13 and 14? There appears to be here?

A No sir, those are flow lines again, and incidentally a surface  
fuel line also.

Q DR. BOOMER: Are you taking gas from 13 and 15?

A To the plant?

Q Yes?

A No. They are connected into a fuel system supplying drilling  
operations in that area. There are some inter-connections  
which do permit gas being passed into the gas gathering system  
if there is an excess, but there are no permanent gas gathering  
lines at those two points yet. That covers gas gathering lines  
1, 2 and 3, the last ones being No. 3.

There are two gas gathering lines going generally south-  
wards from Madison's main plant to Section 6, designated for  
operating purposes as Nos. 4 and 5. No. 4 is the easterly  
of the two lines on the map, and can be seen travelling across  
Section 6, Township 20, Range 2, to Royalite 6 in Section 31,  
and then southwards down the road allowance to Section 20.  
Section 20 is the one familiarly known as the Home section,  
and the several wells on that section are connected into that  
gas gathering line. An extension of it goes southwards into  
Section 17 to pick up the Mayland group of wells, and on  
southwards to pick up wells in Sections 8 and 9, and that line  
now terminates at Southern Lowery No. 3, on the South boundary  
of Section 9. Now that line used to continue southwards  
across Section 4 to Royalite's gasoline plant No. 2, but that





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portion of the line was picked up at the time Royalite's gasoline plant No. 2 was shut down and the pipe used in other portions of the gas gathering system.

Q MR. BLANCHARD: Was No. 2 in the northeast of 33?

A That is right, in the northeast quarter of Section 33.

Q MR. CHAMBERS: Township 18?

A Township 18, Range 2. Now the question has been raised as to whether those lines which service gasoline plant No. 2 were included in Mr. Hill's inventory. The answer is very definitely "No ". At the time Mr. Hill made his inventory gasoline plant No. 2 had already been shut down.

Now going back to Madison's main plant, and following gas gathering line No. 5 westerly to Section 6, it travels into Section 31, back in Township 19 now, and in Range 2, and from the centre point of Section 31 it goes eastwards to the road allowance, and then travels southward on that road allowance picking up Dalhousie 7 as it passes in Section 30, and on to the northeast corner of Section 19, at which point it picks up Advance No. 5. From that point southwards it is not in the proper sense of the word a gas gathering line, because the discharge line from Compressor Station No. 3 enters at that point and it, therefore, has the dual function of being what might properly be called a discharge line to Compressor No. 3, travelling northward to deliver gas to the scrubbing plant and also a gas gathering line. The object of doing that is the obvious one of economy, of utilizing something that was already available in the ground, and as you will note the route is almost the most direct route from one point to another at the same time. So that line terminates at Compressor Station No. 3 in Section 7 of Township 19, and that completes the gas gathering systems contributory



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to Compressor Station No. 1.

Now to deal with the gas gathering lines contributory to Compressor Station No. 3. Compressor Station No. 2 was mentioned in passing the other day by somebody. And that, of course, was in operation years ago and it, like gasoline plant No. 2 has been dismantled and does not come into the Madison operations at all.

From Madison's Compressor Station No. 3 in Section 7, several gas gathering lines radiate. Starting again with the most northerly, it will be seen that it travels into Section 18, then on upwards into Section 19, passing a little to the west of Royalite's battery 17, and then proceeding in a northwesterly direction across Section 24 to enter the South end of Section 25. At several points along here laterals enter the line bringing in gas from independent wells and batteries.

THE CHAIRMAN: What is that line in there, Mr. Stevens-Guille?

A That is the suction line No. 1, sir.

In 1944 that line was extended from Royalite battery No. 17 to its northwest limit in Section 25, in order to pick up the gas that was then being flared in that area which had sufficient pressure to enter the system. You will note I have in Sections 18 and 19<sup>a</sup>/red line. That is a possible change in size of line projected for the current year. The reason for that is the operating pressures are of course decreasing and it might be necessary to increase the line's capacity in order to alter that volume pressure. The intention at the moment, subject of course to review of the operating conditions before it is done, is to replace the four-inch line with a six-inch line, not to loop it, as the



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six -inch line would have sufficient capacity to the end of the life of the project, if our estimates on last review of the situation are upheld. Closer to the station and on the same line is another projected change which is merely a cut-off to shorten the line. The pipe that might be recovered by doing that would be utilized in the extension of the systems.

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Travelling anti-clockwise on the map you come to Suction Line No. 2 which runs westward from Compressor Station No. 3 in Section 7, Bi-focates in the Northwest quarter of the section one branch running into Section 12 to pick up United Brown wells and the other branch running south in Section 7 to pick up wells separated at the Drillers and Producers Battery including Pacific Pete No. 6. The next line No. 3 parallels No. 2 and goes until the point just north of Anglo-Canadian No. 8 on the map. Now we do not show on this map the Anglo-Canadian battery that exists at that point but at that battery Anglo-Canadian 8 and 9 are separated. 8 has an operating pressure too low to enter the system and it is the gas from Anglo-Canadian No. 9 that is gathered at that point. The next line on the map which goes down to Royalite 48 is a flow line. Royalite 48 is separated at the battery No. 19 which is adjacent to the Compressor Station itself. That flow line is not included.

Q It does not belong to Madison?

A It does not belong to Madison. Still travelling anti-clockwise on the map we come to the No. 4 line which travels from the Station in a south-easterly direction to bi-focate, one branch travelling south-westerly to Royalite Battery No. 20. And here is an example of what I mentioned earlier, a battery at which several wells are separated, some of which have operating pressures sufficient to enter the system while others do not. So while they are shown on our list of wells not connected and the gas from those wells we have estimated it will be flared. It might appear that they are actually connected in fact and of course if their operating pressure could be brought up high enough their gas could be collected without any further expenditure for gas gathering lines. The other



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branch of that gas gathering line travels into Section 8 past Royalite Battery No. 21, South-west into Section 5 and past Royalite Battery No. 22-A and then Eastwards to the centre of Section 5; bi-focates, one branch going to Vulcan Brown No. 1 and the other branch Southward to gather gas from Oil Ventures No. 1 in Section 32 and also from Royalite Battery 26 in the same Section. At that point the gas gathering line terminates. These other lines travelling Eastward to Sterling Pacific 3 or to Sterling Pacific 1, 2 and 3 in Section 33 are flow lines and therefore do not belong to Madison. Now to go back to Compressor Station No. 3. There are other lines radiating from it. They are not however gas gathering lines. Still travelling anti-clockwise the first line is a suction line for residue gas from the Gas & Oil Products plant in Section 4.

Q That was built in 1944?

A Was constructed Mr. Chambers in 1944 at the time the compressor was installed for boosting the Gas & Oil Products residue gas to Madison's scrubbing plant; that compressor being located at Compressor Station No. 3 and operated by the same personnel as operates the wet gas gathered to compressors located at that point. The next line, still travelling anti-clockwise, is that discharge line we have already discussed and then a line crossing it is the residue gas discharge line which travels eastward along the top of Section 8 to join the transmission line from B. A's plant to Madison's scrubbing plant at a point just south and west of the village of Hartell, which is not marked on this map but is in L.S.D. 1 and 2 of Section 17, Township 19. That then completes the gas gathering lines of the Madison system.





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But I did not give and I will do so now the heaters and the locations on the gas gathering lines Nos. 3, 4 and 5. On gas gathering line No. 3 the heater is situated at the junction of the lateral from Okalta Nos. 1 and 2 with the main line on the L.S.D. 5 of Section 6, Township 20, Range 2. There is another heater on that line at Royalite battery 14, in Section 2 of the same Township but in Range 3. Now on gas gathering line No. 4 there is a heater located at Royalite 6, in Section 31, of Township 19, Range 2; another heater located at Dalhousie 7, in Section 30, Township 19, Range 2, and another heater where the Calmont and Home wells enter the system in the centre of Section 20. Another heater at Lowery Pete No. 1 on the north boundary of Section 17. A heater installation for the Mayland group in the same section and a heater at Southwest Pete No. 1 in Section 8 and finally the heater at Southern Lowery No. 3 in Section 9. On gas gathering line No. 5 there is a heater installation at Royalite 25, Section 31, of Township 19, Range 2 and a heater on that line at Dalhousie 7. The same boiler serves the heaters on both lines No. 4 and 5 at that point. Dalhousie 7 is in Section 30, Township 19, Range 2 and at Advance 5-A -- I omitted to say there is a heater installation - no I am correct as I have given that to that point - the heater installation at Advance 5-A is at the point where the discharge line from Compressor Station No. 3 joins the gas gathering system at that point. Advance 5-A is situated in Section 19, of Township 19, Range 2. The heat and the compression of the gas at Compressor Station No. 3 is sufficient to keep the gas above the point of formation of hydrate up to Advance No. 5-A corner, so that there are no heater installations located on that line. On the suction line system contributory to





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Compressor Station No. 3 there are no heater installations. The operating pressure of that system is comparatively low and the formation of hydrate is not therefore the problem that it is in systems operating at the higher pressures. That covers the gas gathering system.

The next step in the handling of this gas is to boost its pressure at the Compressor Station. We will deal first with Compressor Station No. 1 in Section 6, Township 20, Range 2. At the time Madison took over that Compressor Station, January 1st, 1944, there were four - six hundred horse power Cooper Bessemer gas engine driven compressors installed together with all the necessary auxiliary equipment, air starting equipment, water cooling pumps and lines. In 1944 two additional and similar units were added to take care of the decreasing pressure at which the gas was being produced as a whole into the system contributory to that plant and also to handle the increased volume available due to the extension of the line at this, the extension of the gas gathering line No. 2 into Sections 17 and 18, or to 17 only. The line goes into Section 17 of Township 21. Two of those compressors will also be used during the current year when in the summer months the wet gas boosting load which ultimately supplies the residue gas for use as fuel in Calgary and other towns connected to the Canadian Western system is low and to return the excess residue gas to the limestone formation for storage. This excess residue gas will have to come from crude oil wells and if some such provision were not to be made it would of course have to be flared. Originally the reservoir pressure at Turner Valley was sufficient to deliver the gas in the first instance through the scrubbing plant and afterwards when the gasoline plant was added through the gasoline plant



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and the scrubbing plant to the intake of the Canadian Western Natural Gas system which is located in Section 6 in the Plant yard, without the necessity of boosting its pressure. As the reservoir pressure of the field has fallen on the withdrawal of crude oil and gas it has become necessary to boost that gas pressure in order to be able to deliver it to the Canadian Western at sufficient pressure for their lines to be able to transmit it to the point at which it is consumed. The Compressor Station therefore performs a function of making that gas available to the Canadian Western market. It is therefore a very necessary part of the Madison operation. Passing from Compressor Station No. 1 to Compressor Station No. 3, located in Section 7 of Township 19, Range 2. That Compressor Station forms essentially the same function as Compressor Station No. 1, the main difference being that the operating pressure of the wells connected to the gas gathering lines contributory to the station is considerably lower or are considerably lower than those of the wells contributory to Compressor Station No. 1. It therefore has a greater work to perform in increasing the pressure of the enlarged volume of gas in order that that enlarged volume of gas can be available to the market. Therefore the installed horsepower is greater at Compressor Station No. 3 than at Compressor Station No. 1 for the volume of gas handled by those two plants respectively. Clearly if that Compressor Station was not in existence the gas from the wells connected to the gas gathering system contributory to that plant could not reach the market. Going back again to Madison main plants as shown in Section 6.

THE CHAIRMAN: Pardon me, are you starting a new phase of the matter?

A Yes.

Q It is 1 o'clock and if you are at a new phase I think we will





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adjourn.

A It would be a suitable point.

MR. RAGNAR JOHNSON: Pursuant to the arrangement that was made about the submission of any corrections in transcript, in collaboration with Mr. Hill I prepared three statements of errata covering Volumes 20, 21 and 22. These have been handed to the Court Reporter and I would like to suggest that they appear at the beginning of the Volume of the transcript covering today's evidence and that duplicates be provided for insertion in the proper volume.

THE CHAIRMAN: I think that is a very proper suggestion.

MR. BLANCHARD: I was going to ask before the witness leaves the box, I wonder just for our information, if a map could be produced readily showing the pipe lines prior to the construction of Compressor Station No. 3 and connecting with the old No. 2 station?

A It can be done, yes.

Q I mean if you have one available?

A Yes, it can be done. If we have not one available we will be very glad to make up one.

Q I do not know that it is important enough. Do not do that.

A Well it always takes lots of time to prepare these things. I do not know, if we happen to have a copy we can make one for you.

At this time the Hearing was adjourned until 9.30 A.M.

18th April 1945.

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